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American Banker

SIXTH ANNUAL SURVEY 1989

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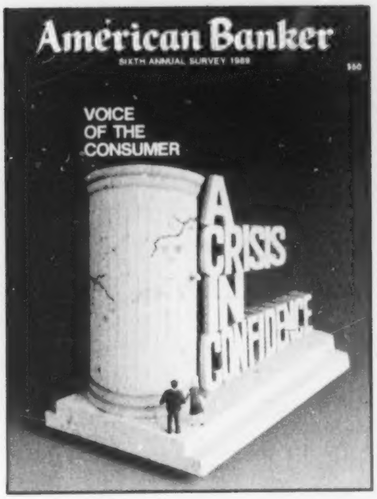

Improving customer service and measuring the results is a popular pursuit of banking competitors these days. Unpredictable shifts in consumer attitudes and confidence, however, can frustrate even the best of strategies.

To help banks, thrifts, and credit unions get a current fix on these essential, yet often fickle, components, we have surveyed their marketplace. Through more than 1,000 telephone interviews, Trans Data Corp., an *American Banker* affiliate based in Wayne, Pa., took the temperature of consumers on their overall confidence in the health of the banking structure and the level of satisfaction with their primary bank, thrift, or credit union. Also measured were changes in savings and borrowing habits, attitudes toward one-stop financial shopping, and a number of other timely issues.

An outline of the findings, written by news editor Jeffrey Kutler, the designer of the survey, begins on page 5. Following it are more detailed articles by our consumer news writers, who buttressed the survey findings with their own interviews. The project was coordinated by features editor Patricia Stundza and assistant features editor Suzanne Christy.

This report on consumer confidence is one of several such magazines on major areas of banking that the *American Banker* produces each year as an extra service to its subscribers. By shedding light on such an elusive topic as consumer confidence, we hope we have been of some benefit to them and others.

Sincerely,

Fred R. Bleakley

Fred R. Bleakley
Editor

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American Banker

CONSUMER SURVEY

How the Survey Was Conducted

The American Banker's sixth annual survey of consumer America's attitudes and opinions on the financial services industry is based on 1,009 interviews with a randomly selected cross-section of the public.

Trans Data Corp., a Wayne, Pa.-based research affiliate of the American Banker, developed the survey questionnaire in collaboration with the newspaper's senior editors. Trans Data performed the interviews by telephone and assisted in a preliminary analysis of the results.

Interviews were conducted among a stratified, random-digit-dial sample, designed so that all telephone-owning households in the continental United States had a theoretical chance of being selected.

Heads of household, coheads of household, and spouses of heads of household, 18 years of age and older, were eligible to be interviewed. The interviews took place in March and April 1989 and lasted about 20 minutes each.

The statistical reliability of the results varies according to the number of responses to a particular question. For a question in which half of all 1,009 participants give the same response, there is a 95% probability that the actual response is between 47% and 50%.

In other words, the sampling error at the 95% confidence level is plus or minus three percentage points.

The three-point margin of error applies to questions answered by all 1,009 in the sample. Subgroups that consist of smaller sample sizes have greater margins of error.

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Public Betrays Nervousness About the Financial System

OVERVIEW

BY JEFFREY KUTLER

Consumers suspect weakness in the U.S. financial industry. They are more nervous about their money than perhaps at any time since the Great Depression.

At least that was the case in March and April, when the news media were full of reports about the thrift debacle and when the *American Banker* conducted its sixth annual survey of consumer attitudes toward banks and the banking system.

The survey documents a crisis of confidence at the time when Congress was debating and shaping the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. It did not escalate into panic, as two-thirds of consumers had at least some confidence in the system and even more said they were satisfied with the service they receive from their own financial institution.

> "The depositor and the borrower must never come at the same time for their deposits. They must trust their bank. . . . If they suspect that they can't get their money, they will surely come [to get it]. Suspected weakness ensures weakness."
>
> John Kenneth Galbraith,
> "The Age of Uncertainty"
> Houghton Mifflin Co., Boston, 1977, pp. 167-170

But many consumers asserted that if it were not for the protection afforded by federal deposit insurance, they would have withdrawn much of their money from banks and kept it at home, presumably stuffed in the proverbial mattress. Deposit insurance may be the glue that holds the fragile system of confidence and trust together, and politicians would tinker with it at their peril.

Such conclusions bolster the arguments of lobbyists such as Kenneth Guenther, executive vice president of the Independent Bankers Association of America, for whom deposit insurance is sacrosanct. It is a political reality that would make it difficult to modify the blanket coverage of $100,000 per account, as has been suggested by Citicorp chairman John S. Reed and other money center bank executives.

"Consumer confidence remains relatively high because we haven't fiddled with existing levels of deposit insurance," Mr. Guenther said. Changing the insurance commitment would be "a very hot coal that could burn a hole in consumer confidence very quickly."

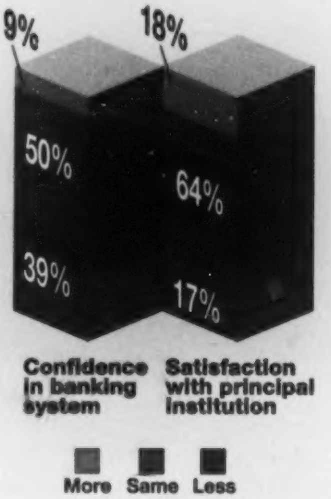
Consumer activist Ken McEldowney said people are angered by talk of reducing or eliminating insurance coverage, and it only raises their suspicions about the indus-

---

Jeffrey Kutler, editor of this consumer survey, is also an American Banker *news editor in New York.*

Safety vs. Satisfaction

Compared to a few years ago, people have gotten more critical of the state of the financial industry than of their own institutions.



Percentages rounded
Source: American Banker Consumer Survey 1989

try's health in the wake of the thrift crisis. "I think all financial institutions have gotten equally tarred in the consumer's mind," said Mr. McEldowney, who is director of Consumer Action, a San Francisco-based advocacy group.

One idea for modifying the insurance system – charging customers a fee for deposit insurance – also gets a negative public response, though it is not unanimous.

"The Bush administration proposal earlier this year [to charge for deposit insurance] was such a short-lived trial balloon, and was so decidedly zapped by public opinion, that it never really got into consumers' consciousness," Mr. McEldowney said.

But the *American Banker* probed consumer attitudes toward the proposed 25-cent user fee, or premium, for insurance on every $100 in deposits and found that 44% of the people would pay it if necessary to keep the system in place. That is not enough to win an election, but it shows that the idea may not be hopeless.

"I, personally, thought the [premium] idea was a good one," said Karen Shaw, executive vice president of the Washington-based Institute for Strategy Development. "The outrage when it was discussed had to do with its apparent violation of the President's 'no new taxes' pledge, and with a feeling that the financial industry had an obligation to pay those costs."

□ □ □

These readings of public opinion about the financial industry and faith in the deposit insurance system are among the many findings from the newspaper's annual consumer survey. Trans Data Corp., the *American Banker*'s research affiliate in Wayne, Pa., gathered the results from telephone interviews with 1,009 adults representing a cross section of the public.

The survey was designed to measure consumer America's confidence in the banking system; how that confidence is reflected in attitudes toward respondents own financial institutions; opinions on policy issues such as lifeline banking and redlining; and how consumers react to various products, initiatives, and innovations of commercial banks, thrift institutions, and credit unions.

The findings are analyzed in more detail in the articles that follow. Here are some of the highlights:

□

Consumers perceive the health of the banking industry to be at its worst point in the six years that the survey has tracked it.

The 1989 survey was the first in which as many as 30% of the people called the industry somewhat or very unhealthy. The previous high was 27% in 1987.

The percentage saying the industry is somewhat or very healthy amounted to 65%, one point lower than in 1987.

When the question was phrased differently – How much confidence do you personally have in the safety and security of the U.S. banking and financial system today? – 83% said they had some or a great deal of confidence, 15% said little or none. The 83% was a five-year low, the 15% a five-year high.

□

Fears about the health of the banking system do not carry over into most relationships between depositors and their financial institutions.

While the overall level of customer satisfaction fell this year, a full 61% said they remain "very satisfied" with the bank, thrift, or credit union that they consider their primary source of financial services. By contrast, only 10% said the industry at large is "very healthy."

The 61% "very satisfied" was down from 66% in 1988, but it is higher than in three previous years of the *American Banker* survey: 1984, 1986, and 1987. Another 36% characterized themselves as only "somewhat satisfied" with their principal institution, leaving only 4% unsatisfied.

The number of people who said their satisfaction with financial institutions climbed in recent years was 18% – double the number who said their confidence in the banking system has increased. Four people in 10 said their confidence in the system has fallen in the past few years, while only 17% complain that they are less satisfied with their own financial services.

There is an element of self-fulfilling prophecy in the attitudes of people who say they have a great deal of confidence in the safety and security of the U.S. banking system. Three-fourths of the most confident respondents also called themselves "very satisfied" with their principal financial institution. Only 42% of those with little or no confidence are very satisfied with their bank, thrift, or credit union – but 42% would seem to be a good score among otherwise disgruntled people.

□

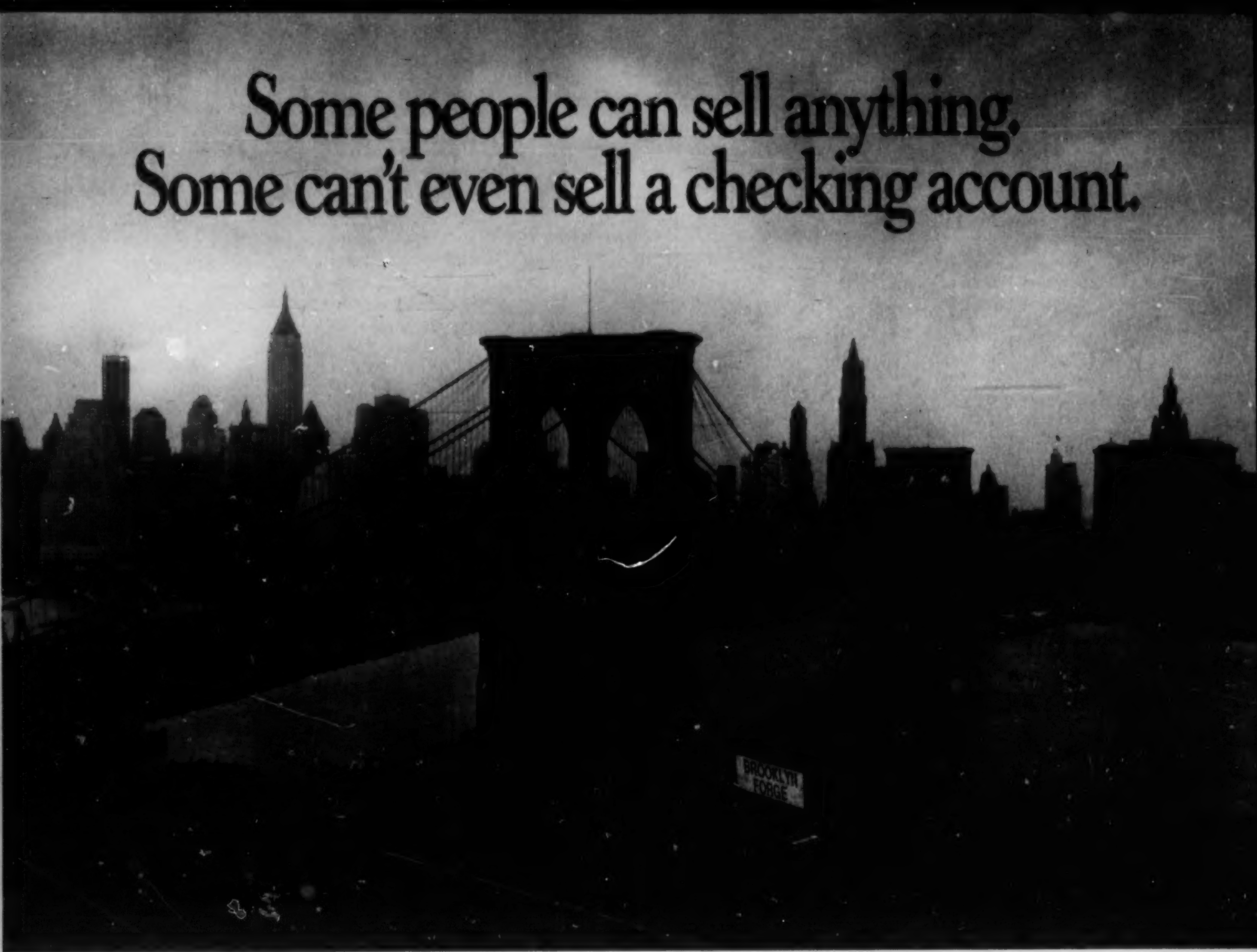
Consumer faith may be wavering in the financial system, but there is little doubt about the importance and reliability of the insurance backing their deposits.

A full 95% of [illegible]dents said that governmen[illegible]osit insurance is importan[illegible] so important that if they [illegible]eprived of insurance, 36% said they would prefer to keep their money at home instead of at a depository institution. Only 18% would keep their money in an uninsured bank, thrift, or credit union. The rest would seek safer havens in securities firms, mutual funds, or other outlets.

Also, consumers have a bit more confidence in their deposit insurance than in the banking system generally. The number having little, some, or a great deal of confidence in the insurance funds added up to 88%. This compares with the 83% who had at least some confidence in the banking system.

□

A sizable minority of consumers say they have changed their saving and borrowing habits since 1986 – the year Congress passed the Tax Reform Act that limited the tax advantages of most forms


Some people can sell anything.
Some can't even sell a checking account.
BROOKLYN FORGE

For a long time, "selling" was a tough concept to sell to the banking industry. While not exactly frowned upon, it wasn't necessarily encouraged. Products and services sold themselves. Tellers, officers and customer service representatives were mere order takers.

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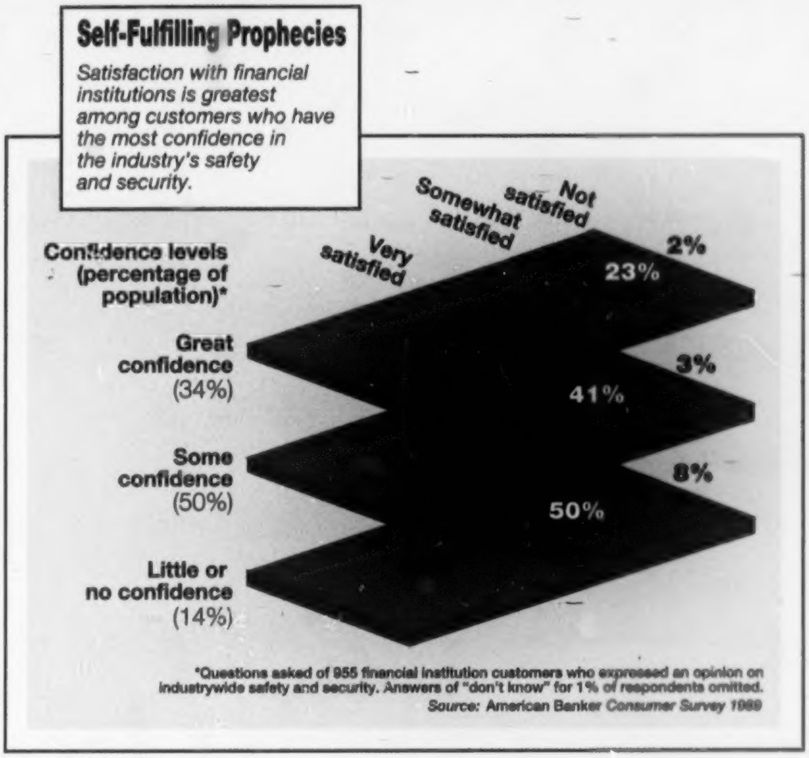

Self-Fulfilling Prophecies

Satisfaction with financial institutions is greatest among customers who have the most confidence in the industry's safety and security.

*Questions asked of 955 financial institution customers who expressed an opinion on industrywide safety and security. Answers of "don't know" for 1% of respondents omitted.

Source: American Banker Consumer Survey 1989

of consumer credit.

About one-third said they are saving more, borrowing less, and taking credit card loans less than in 1986. Conversely, 66% are saving the same or less than they did three years ago, 51% have not changed or have increased their borrowing, and 47% have not changed or increased their credit card outstandings.

The survey also showed that 1% of the people said they do not save at all, 13% said they do not borrow, and 19% said they do not use credit cards.

□

Despite the reactions to the 1986 tax changes, most people are financially libertarian: They resist government initiatives and other programs designed to promote savings, and they oppose laws that would require banks to serve disadvantaged people or neigborhoods.

Asked their reaction to a systematic savings program, along the lines of an individual retirement account, that would help them save for a home or a college education, 58% rejected the idea. They apparently prefer to design their own savings programs. The others were interested in one or both types of saving plans.

Consumers were more receptive to saving through automatic payroll deductions: 20% said they were currently enrolled and 28% more were interested, leaving 49% not interested and 2% not sure.

The survey participants also preferred that government refrain from mandating that banks provide a basic package of services, known as lifeline accounts, to poor people. Although 57% favored lifeline banking in principle, 69% did not want a law requiring it.

Similarly, 67% said they opposed laws that would require banks "to lend locally, even if such loans are not profitable." Thus, it appears that the majority are not enthralled with the Community Reinvestment Act and other laws designed to prevent bank funds from flowing outside their local neighborhoods.

"People realize there's no free lunch," Allan Paro, director of advertising for the American Bankers Association, commented on these free-market attitudes. "Most of the people realize somebody is going to have to pay for [subsidized or unprofitable services], and they envision they're going to have to bear the cost through higher fees, interest rates, or whatever."

□

Branch location and interest rates remain the most important factors customers consider when choosing a bank.

On a 1-to-5 scale of importance, with 5 being the top, branch location scored a 4.21 and deposit interest rates 4.19.

Less important were fees, at 3.88; branch hours, at 3.81; and automated teller machines, at 3.02. Consumers assigned almost no importance to premiums – the toasters and stuffed animals that were once a staple of bank marketing. They scored a 1.59.

□

Depository institutions have done little to establish themselves as "one stop" financial centers, but commercial banks have a built-in advantage over others if they want to project such an image.

Seven of 10 consumers said they had never been solicited by their bank, thrift, or credit union to consolidate accounts in the one institution.

Because of their "full-service" charter, commercial banks are best equipped to promote a consolidated relationship. Of the entire public as represented in the survey sample, 88% already have at least one relationship with a bank and 55% consider a bank their principal institution. Thrift institutions have relationships with 56% of the people, but only 24% say a thrift is their primary choice.

One obstacle to making "one-stop" relationships more common is that consumers are not inherently loyal. They tend to shop around for the best deal on such products as certificates of deposit, mortgages, automobile loans, and credit cards. But in each of these lines, commercial banks have a significantly higher market share than thrifts and credit unions.

□

Although many bankers have tried to establish a sales-oriented culture, relatively few of their customers have noticed.

Only 8% of customers said they have been approached in person by a financial institution employee seeking to sell a product or service. But the results of these few contacts should encourage more direct sales in branches. Of those who had been approached, 65% called the experience helpful and 46% said it resulted in their buying a product or service.

Financial institutions have done more communicating over the phone: 32% of respondents said they had been contacted this way, but less than half of these calls were true sales calls. The rest were information requests or problem resolutions, or were returned calls. □

Confidence/ Satisfaction

A
CRISIS
IN
CONFIDENCE

Consumers' confidence in the industry's safety and security is at its lowest point since this survey began in 1984. But fears about the health of the system do not have an impact on how satisfied customers are with their financial institutions. Credit unions have come through the crisis relatively unscathed.

◆ Confidence Drops 12
◆ Enthusiasm Begins to Erode 18

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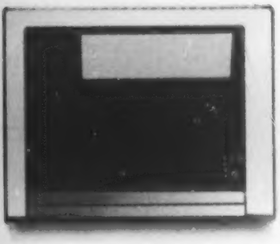

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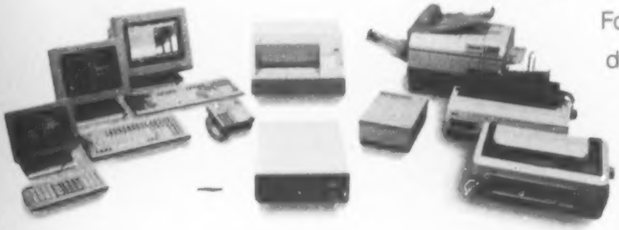

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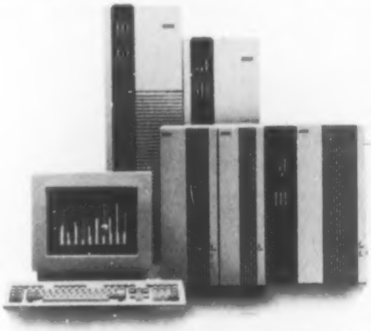

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Consumers Anxious & Angry About Savings and Loan Mess

The public continues to trust their institutions, but thrift woes taint image of banking industry.

BY JEFFREY KUTLER

News of the thrift crisis and the federal government's efforts to clean it up has taken a toll on public confidence in the banking system, the *American Banker*'s annual consumer survey shows.

Consumers' estimation of the health of the banking system, and their confidence in the industry's safety and security, are at their lowest points since the *American Banker* survey series began in 1984. For the first time, as many as 30% of the people believe the industry is not healthy.

"Bad things are happening and no one seems to know what to do," one person from Oregon told an interviewer last spring. "I think the public is scared."

"The banking system is built on trust, and we can't trust them," said another respondent from southwest Florida.

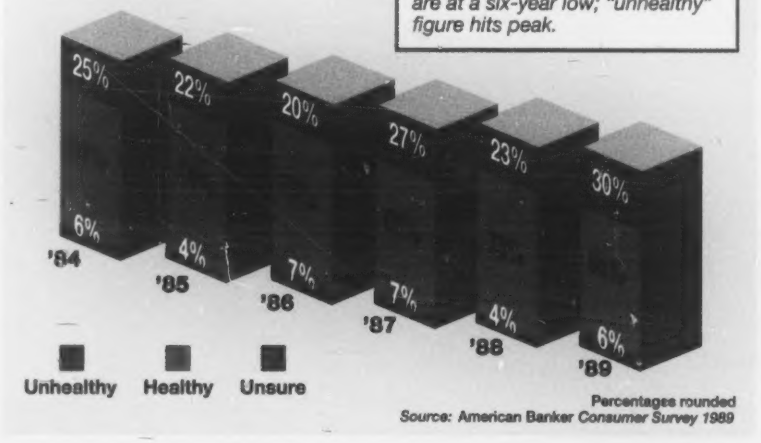
This is not to say that large numbers of people are ready to close their checking and savings accounts and seek safer havens elsewhere. The majority still say that the industry is in at least "fairly good" shape and that they have at least some confidence in their institutions' safety and soundness.

In fact, depositors tend to be more content with the service they receive from their own institutions than with the overall health of the industry. Much of that comfort level might be attributed to the insurance on most consumer deposits – a protection that has almost unanimous public support and tends to build trust between depository institutions and their customers. (See related article on page 16).

These results, among many derived from questions put to a randomly selected sample of 1,009 consumers last March and April, suggest that financial institution executives have less of a problem dealing with their own cus-

Consumers Grow Critical Of Financial System's Health

Those rating the system "healthy" are at a six-year low; "unhealthy" figure hits peak.



Percentages rounded
Source: American Banker Consumer Survey 1989

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*R.H. Bruskin Omnitel Study of Bank Customers, 1986, 1987, 1988.

**Intermarket Research, February 1989. †Offices of American Express Travel Related Services Company, Inc., its affiliates and Representatives.

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Confidence Level Is Down

*How much confidence do you personally have in the safety and security of the U.S. banking and financial system today?**

	'85	'86	'87	'88	'89
Great Deal	37%	38%	34%	36%	33%
Some	48	48	50	51	50
Little or none	12	12	13	12	15
Unsure	3	2	3	1	2

*Question asked of all 1009 consumers in survey, including 24 who do not use any financial institution.
Source: American Banker Consumer Survey 1989

tomers' concerns about those institutions than members of Congress have had restoring a general sense of confidence through legislative reforms. And for officials in the capital, the job still is not done.

The landmark Financial Institutions Reform, Recovery, and Enforcement Act of 1989 reflected "a high level of concern and certainly rhetoric about the public confidence level," said Karen Shaw, executive vice president of the Institute for Strategy Development, Washington. "But Congress did not act as if it really understands the confidence issue.

"The bill did not restructure the deposit insurance system except to shore it up with more money," Ms. Shaw said, adding that more significant reforms that would shore up public confidence, such as revised levels of deposit insurance coverage, are still to come.

Meanwhile, out at the grass roots, bankers have had to contend with an increasingly restive, if not angry, band of depositors who do not like what they have been hearing and reading about the financial industry.

Some of the anger came out in the survey interviews conducted for *American Banker* by Trans Data Corp., its research subsidiary in Wayne, Pa. One respondent near Fort Worth, Tex., railed against "a lot of mismanagement . . . too many good ol' boy loans."

Tarnished Image

Another in Maryland complained about the costs of using banks. "You can go to 7-Eleven and get a money order cheaper than at a bank. The banks should be for the people and they are not."

"The way we have to address these [image] problems is to run a safe bank, a quality bank," said David Thibodeau, executive vice president for retail banking at Third National Bank, Nashville. "If the thrifts that got into so much trouble paid the right amount of attention to asset quality and prudent lending decisions, we wouldn't be faced with the crisis we have today."

Mr. Thibodeau said he was not aware that any consumers channeled outrage directly at his bank, whether by abruptly closing accounts or lodging protests with branch personnel. But he said bank managements must constantly keep in mind consumers' tendency to "translate headlines into feelings and actions."

Those headlines, with a vocabulary that included "crisis" and "bailout," are the real culprits, according to Thomas J. Hefter, president of the Financial Institutions Marketing Association, Chicago.

"It still hasn't been proved to me that the so-called crisis led to any loss of consumer confidence," Mr. Hefter said. "If there was any one event to point to, it was the stupid statement by [Treasury Secretary] Nicholas Brady in January that there should be a tax on deposits to pay for insurance."

He blamed the insurance-premium proposal and "ordinary disintermediation" for the record outflows of deposits from savings institutions in the early months of 1989. "The stock market was rising, and people could get higher interest rates elsewhere," he said, "so they started shopping for yields. It's a normal, cyclical happening."

Regardless of how real the crisis is and who is to blame, consumer perception and understanding are what count. The consumers polled for the *American Banker* survey said the following:

- Asked to rate the banking and financial system's overall health, 65% gave it a healthy grade. This is down by eight percentage points in a year and one point below the previous low in 1987.
- Conversely, 30% gave unhealthy grades, and more than one-fourth of these went so far as to call the system "very unhealthy." The 30% figure jumped by seven percentage points since 1988 and by three points from the previous high in 1987.
- To a differently phrased question – asking respondents to rate their personal confidence in the banking system's safety and security – 83% said they had some or a great deal of confidence, down from the five-year high of 87% in

VOICE OF THE CONSUMER

> "We've got too many crooks in our banking system. They go to church every Sunday morning and bilk shareholders out of their money during the week. I'm a shareholder, and I was taken to the cleaners. The bank had bad management. . . . They let anyone walk out with money."

Twenty-three-year-old, middle-class, black, single woman living in a city

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Like Mom and Apple Pie, Deposit Insurance Seen As a Necessity – if Not a Right – by US Consumers

Last January, a storm of public protest waylaid a proposal by the Treasury Department to charge bank customers a premium – euphemistically called a service fee – for deposit insurance. But the *American Banker* consumer survey suggests that contrary to many assessments of the public mood, the people could be persuaded to bear some of the costs of this insurance.

More than 4 people in 10 said they are already willing to pay an insurance premium if the federal deposit insurance fund would not otherwise survive.

To be sure, consumers get militant at the thought of removing the coverage of $100,000 per account that they have come to regard as an entitlement. When asked, "Where would you keep your money if deposits were not insured? " 36% of the 1,009 people surveyed said "at home."

The questioners did not probe further, but it would likely provide a boon to the mattress and shovel industries unmatched since before the Federal Deposit Insurance Act of 1933.

Money at Home

"Deposit insurance is a 'mom and apple pie' issue," said Les Dinkin, a financial institutions consultant with KPMG Peat Marwick in New York. "People see a lot of things happening – failures, takeovers, the government thrift bailout – that they don't understand or feel they have control over. Take away their deposit insurance, and they wonder what is left."

If their deposits were not insured, only 18% said they would have kept their funds in banks, while 26% would have gone to securities firms, mutual funds, and other outlets. Another 21% did not answer the question.

This was a hypothetical question, posed in March and April by Trans Data Corp., an affiliate of *American Banker*, when the possible tightening of deposit insurance was still fresh in consumers' minds. But when the researchers talked more specifically about the proposal to charge an insurance fee, the reaction was considerably more moderate.

Nearly half of the respondents – 44% – said they would pay 25 cents for every $100 on deposits, or $2.50 per $1,000, if it were "the only way to maintain the insurance." The number willing to pay went as high as 50% of people earning $20,000 to $40,000 a year, and 53% of those between the ages of 18 and 39 – an income group and a generation that appears especially concerned about its financial assets.

Resistance Among the Elderly

With 49% of all people opposing an insurance premium, and 6% undecided, it would still seem impolitic – if not out of the question – to reconsider the trial balloon that was floated in the early days of the Bush administration.

"You can explain to me the reasonableness of an insurance premium, but try explaining it to my mother," said Diane Casey, director of regulatory affairs for the Independent Bankers Association of America. "The sense of entitlement is very strong, and after the experience of early this year, people in Washington know it."

Assuming that Ms. Casey's mother is in the 55-and-older age group, she would presumably be among a solid majority of her peers opposing an insurance premium. Six of 10 in the over-55 generation, and nearly seven of 10 over 65, said they would not pay for deposit insurance. And they are a powerful voting bloc.

"I, personally, thought the [premium] idea was a good one," said Karen Shaw, executive vice president of the Washington-based Institute for Strategy Development. "The outrage when it was discussed had to do with its apparent violation of the President's 'no new taxes' pledge, and with a feeling that the financial industry had an obligation to pay those costs.

"It had little to do with the actual health or weakness of the deposit insurance system," Ms. Shaw said, adding that Congress only began to deal with longer-range structural questions in the 1989 thrift-reform legislation.

Whatever Congress eventually does to reform or restructure the insurance funds, consumers are sending at least one clear message at the outset: Leave the system in place, and let it keep protecting individual depositors.

About 95% of the people said deposit insurance is either somewhat important, important, or very important to them. There are 72% in the last of those three groups – an extremely high response for a survey question seeking answers on a five-point scale.

That unanimity was tempered in only a couple of subgroups. Among nonwhites, only 58% gave the "very important" response, but the total giving some degree of importance added up to 91%. Of people lacking a high school diploma, 64% said "very important," and all the important responses added up to 86%.

FDIC Gets Star Billing

Asked if they would be interested in foregoing deposit insurance in return for an account that paid one percentage point higher interest, 78% of all consumers rejected the idea.

Few institutions in American life would seem to engender the confidence that the Federal Deposit Insurance Corp. enjoys. Eight out of nine people said they have one of three levels of confidence in the system: 32% who said they have "some confidence," 36% who said they "are confident," and 21% who said they have "a great deal of confidence."

Only 9% stated they have little or no confidence in the insurance backing their deposits, and 2% were undecided.

The pattern cuts across all demographic segments.

Confidence was somewhat lower among the youngest adults, 18 to 24, of whom only 8% had a "great deal" of confidence compared with 21% of the general population.

There was also a racial split: Whereas 22% of whites had a great deal of confidence and 89% had some degree of confidence, the comparable figures for nonwhites were 15% and 82%.

— **Jeffrey Kutler**

1988. The number having little or no confidence, at 15%, climbed three percentage points in a year.

- A general impression of institutional failure accounts for the relative decline in public confidence. Among people viewing the industry as unhealthy, the reason they cited most frequently was that "too many banks and/or thrifts have been failing." One-sixth of the people in this group, or 17%, volunteered that answer without prompting. Another 6% mentioned loan defaults including Third World problems; 6% referred to what they had heard or read in the news media; and 3% specifically cited the savings and loan insurance crisis. No other reason got an appreciable response.
- Half the people said their level of confidence in the banking system has not changed over the past few years. But 4 in 10 said their confidence has fallen, and only 9% reported that their confidence has increased.
- There is no direct correlation between consumers' confidence in the system and satisfaction with their principal financial institutions. More than 6 in 10 claimed to be "very satisfied" with those relationships, and 18% said their satisfaction has risen in recent years. (These satisfaction statistics are explored in more detail in the next article in the series on the *American Banker* consumer survey. See page 18.)

Some Groups More Sensitive

Consumers' views on financial industry health are uniform across almost all geographic and demographic categories. The nationwide split – 65% saying the industry is healthy, 30% unhealthy, and 6% undecided – is matched within a few percentage points for people aged 40-64 (63%-32%-5%), people earning $20,000 to $50,000 a year (67%-29%-4%), those earning more than $50,000 (67%-30%-3%), city dwellers (65%-29%-6%), small-town residents (68%-26%-6%), high school graduates (65%-28%-7%), and those with college and graduate degrees (66%-30%-3%).

Regionally, people in the West gave slightly lower grades than all others, with 60% saying healthy, 32% unhealthy, and 8% undecided. For purposes of this study, the western region included Arizona and California, which were hit relatively hard by troubles in the thrift and real estate markets, but not Texas. The Lone Star State was lumped in with the South, which as a whole was no different from the rest of the country.

There are some subgroups in which the question of health becomes more sensitive, but it has little to do with customers' choice of a financial institution. Regardless of whether they identify a bank, thrift, or credit union as their main institution, consumer attitudes do not differ significantly from the national norm.

Those who differ – expressing more than the average uncertainty about industry health – tend to have lower educational levels or income, or to be over age 55 regardless of income. They do not necessarily assert that the industry is unhealthy; an unusually large number are simply uncertain.

Others Are Not Quite Sure

For example, among people who lack a high school diploma, 57% rated the industry healthy and 29% did not. That left 15% who were unsure or did not answer – more than double the 6% response in the general population.

Among those with household incomes under $20,000, the split was 58% healthy, 29% unhealthy, and 13% unsure. About half the people at this income level are over age 55, a group that seems particularly unsure about the industry's health.

Bankers may be willing to write off the downscale market segments, because there is not too much money at stake. But senior citizens with financial assets are another matter. Of people in the survey aged 65 and older, 66% viewed the industry as healthy, in line with the overall norm, but 24% said unhealthy and 10% were unsure.

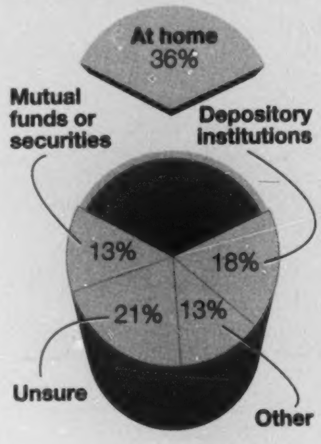
Of respondents who are 55 and over with less than $20,000 in current income, 61% said healthy, 26% unhealthy, and 13% were unsure. Those over 55 with more than $20,000 in income were more secure: 71% said healthy, 26% unhealthy, and only 3% were uncertain.

"The issues of safety and soundness are of great concern for older customers," said Michael Sullivan, a Charlotte, N.C.-based consultant who has specialized in recent years on marketing to senior citizens. "They have a great deal of faith in the system, but they enter their retirement years with a lot of concerns about security."

Aside from the fear of a physical disability that could force them to become dependent on other family members, "people in their late preretirement or early retirement years worry most that they might outlive their economic resources," Mr. Sullivan said. "The institutions that these people have developed relationships with over the years make a major contribution to their economic wherewithal, and they are very sensitive about the safety of those institutions."

Money in the Mattress

Where consumers would keep their funds if deposits were not insured.



Percentages rounded
Source: American Banker Consumer Survey 1989

Elderly Have Distinct Needs

Mr. Sullivan and another consultant, Vicki Thomas, recently completed a book, "Banking on the Mature Market Customer," published by the Bank Marketing Association. It discusses the influence on financial services of the aging of the U.S. population: The average age will rise from 31.6 today to 36 in 2000 to 42 in 2040.

Mr. Sullivan said the elderly should be viewed as an attractive banking market, but one with needs very different from younger adults in the wealth-creating or credit-hungry parts of their lives. They also have active minds and when they become aware of a banking crisis, it affects how they view their institutions.

"These people read," Mr. Sullivan said. "We should listen to what they say." □

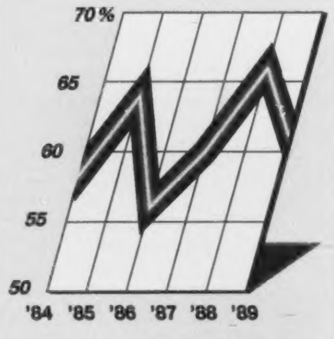
Consumers Still Like Service, But Their Enthusiasm Erodes

The increase in bank mergers and the thrift industry's woes may be darkening the mood.

BY MICHAEL WEINSTEIN

A Dip in Satisfaction

For the second time in four years, there was a decline in customers who are "very satisfied" with their primary institution.



Source: American Banker Consumer Survey 1989

Consumers are becoming less happy with their financial institutions but are far from the point of stuffing dead fish into their safe deposit boxes, as one protest group did a few years ago.

The proportion of U.S. consumers who are "very satisfied" with their banks, thrifts, and credit unions fell in the last year to 61% from 66%, the annual *American Banker* consumer survey found.

Although the adverse publicity stemming from the thrift crisis and bank failures in the Southwest may be affecting consumers' views of their financial institutions, the current 61% figure matches the average over the previous five years. With another 36% saying they are "somewhat satisfied," only 4% are completely unsatisfied.

In the survey, consumers were asked to rate their experiences with their primary financial institution. A majority – 55% – said their primary relationship was with a bank. Another 24% chose thrift institutions, and 14% credit unions.

Credit unions continued their tradition of outshining commercial banks and savings and loans in customer satisfaction. Three-fourths of credit union customers said they were very satisfied, compared with 59% of thrift customers and 57% of bank customers.

Hot Spots

As in past years, hot buttons for consumers are quality of service and rising fees. Higher fees may be getting especially touchy for customers of credit unions.

Michael Weinstein is chief of the American Banker's *Northeast bureau.*

These are some of the results of the *American Banker*'s sixth annual survey. Trans Data Corp., a Wayne, Pa., research affiliate of the newspaper, polled 1,009 households in March and April on their attitudes toward the financial industry and its institutions.

While customer satisfaction slipped this year, some bankers said their own surveys showed no such decline in customer satisfaction.

Internal surveys at Manufacturers Hanover Trust Co., New York, show that almost 90% of customers are "very satisfied" or "somewhat satisfied" with the bank's service, said Robert J. Hutchinson, senior vice president for marketing.

The *American Banker* survey found that 96% of consumers are very satisfied or somewhat satisfied, the same as last year.

"There's nothing happening in the banking business that would cause service to degrade," declared John A. Russell, vice president at Banc One Corp., Columbus, Ohio.

Better Times for Banks

Despite the slightly lower levels of satisfaction, the survey shows a small increase in the choice of commercial banks as primary financial institutions. The 1989 figure of 55% rose from 49% a year earlier.

While banks as a whole are not experiencing the dissatisfaction expressed in Pittsburgh a few years ago – when the economic dislocations of the declining steel industry drove angry bank patrons to put fish in safe deposit boxes – some industry observers point to the prolonged thrift crisis and lots of bank mergers as factors that may have influenced consumer perceptions.

"This whole emphasis on thrifts and the [Federal Savings and Loan Insurance Corp.] has hurt all financial institutions," said Kathleen Holmes, executive vice president at Furash and Co., a

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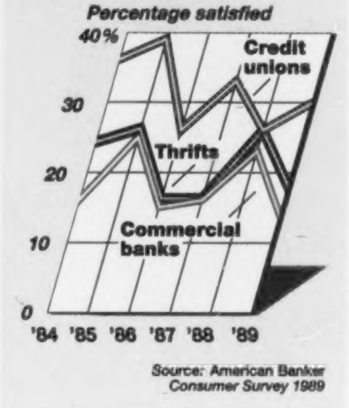
Who Is Happier?

Credit union customers are most likely to say they are more satisfied than a few years ago. The satisfaction level is down across the board since 1985.



Source: American Banker Consumer Survey 1989

Washington consulting firm.

But the number of bank and thrift customers saying they are very satisfied - 57% and 59%, respectively — are virtually equal.

"That kind of amazes me," said William Adcock, chairman of Synergistics Research Corp., an Atlanta consulting firm.

Another survey, however, has shown some erosion of the thrifts' market share. According to recent research by Payment Systems Inc., Tampa, Fla., 16% of consumers use a savings and loan as a primary financial institution, down from 26% in 1988.

In a nationwide poll last May by Opinion Research Corp., Princeton, N.J., 55% of respondents said banks were the safest place to put their money, while only 14% favored savings institutions.

Credit unions seem to have come through the crisis relatively unscathed. In the *American Banker* survey, the 75% of credit union customers who said they were very satisfied was down from 81% last year, but still well ahead of thrift and bank customers.

"Credit unions are absolutely 100% devoted to good service," said Mike Welch, a former president of the Credit Union Executives Society who now runs his own consulting firm in Madison, Wis.

Commercial bankers offer another explanation: Since credit unions generally serve employees of a single company or members of a single community, members naturally have a positive feeling toward the institution.

But Mr. Welch sees a threat on the horizon - rising service charges.

"Credit union members grew up thinking they should get everything for nothing," he said. "I think credit unions have to be cautious as they get into pricing. That's a big communications job."

As credit unions have expanded their product range, they have started adding fees to cover the costs of the new services, Mr. Welch said.

Service fees have become increasingly common at other institutions, and high fees ranked near the top of customer complaints, according to the *American Banker* survey. The irritation level may be climbing among credit union members: Six of 30 who responded to this portion of the survey cited higher fees as the reason for their growing dissatisfaction. This group is too small to yield a statistically valid conclusion, but it is an indication that credit union fees are on the rise.

Service Problems

Consumers' biggest complaint this year - as it has been in the past - was poor service, even though more and more banks are talking about the importance of improving service. To one observer, perceptions of service correlate with larger problems.

The intense media coverage of the thrift crisis "would make me feel more aggravated with financial services, and maybe focus more on poor service," Mr. Russell said.

There may also be a connection between consumer annoyance over poor service and higher fees, said Mr. Hutchinson of Manufacturers Hanover. "If people pay higher fees, they may expect better service."

Ms. Holmes said poorer service may be an effect of the recent wave of bank mergers, as banks focused their attention on consolidating operations and trimming costs. "Maybe they've taken their eye off the ball," she said.

"We have been more skeptical of where the quality-of-service emphasis is going to take us," said Mr. Adcock, adding that he does not think consumers notice superior service.

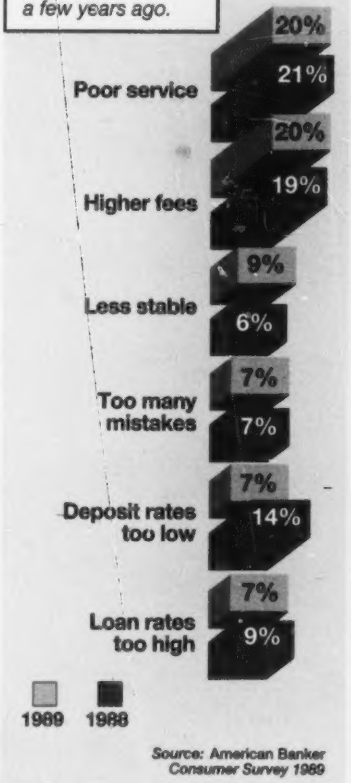
"We don't think you gain a heck of a lot by being better than other people," he said. "We're not sure where the payoff is on that."

One consultant predicted that convenience will become a major issue for consumers as banks cut back on branches. "Over time, banks will have tremendous incentives to reduce convenience to meet cost-cutting objectives," said Donald Kerr, vice president with Booz, Allen & Hamilton Inc. in Chicago.

Current levels of convenience do not seem to cause much of a problem for consumers. Asked why they are less satisfied with their main institution today compared with a few years ago, only 3% mentioned a drop in convenience. □

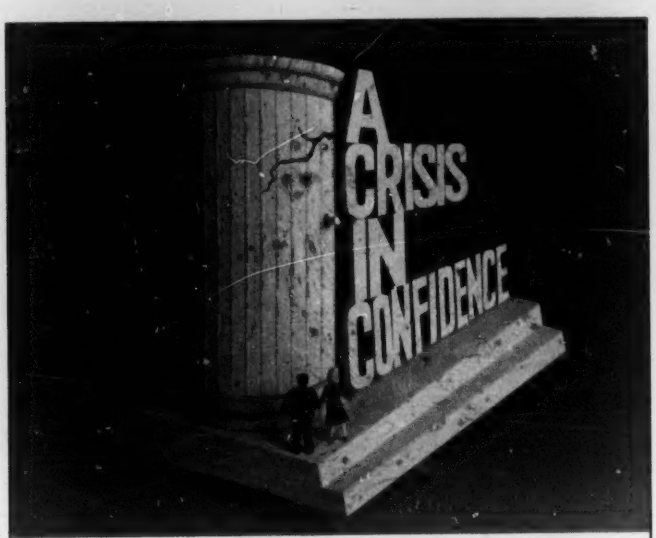
Customer Complaints

Reasons customers are less satisfied with principal institutions compared to a few years ago.



Source: American Banker Consumer Survey 1989

Public Policies



While lengthy debates precede governmental policy decisions – on such issues as check clearing, discriminatory lending practices, and tax-free savings products – consumers apparently want Big Brother to stay on the sidelines.

♦ Lifeline and Redlining 22

♦ Saving More, Borrowing Less 25

♦ Funds Availability 30

All Deserve Access to Services, Say Most, But Don't Make It Law

Consumers apparently fear that a government mandate on lifeline accounts will lead to higher costs for everyone.

BY JAY ROSENSTEIN

The majority of Americans believe banking services are an entitlement – that they should be available to everyone regardless of ability to pay.

But according to the *American Banker* consumer survey, two-thirds of the people do not want the government to require banks to provide basic packages of banking services, known as lifeline accounts, to the poor.

Nor does the public favor laws that require banks to make loans in their local areas, even if the institutions will lose money. This suggests that consumers would prefer governments to refrain from rules that specifically prohibit the discriminatory lending practices commonly called redlining.

These attitudes – liberal on the aspect of entitlement but opposed to government intervention – are found in the sixth annual consumer survey conducted for *American Banker* by Trans Data Corp., its research affiliate in Wayne, Pa.

The results, from interviews of 1,009 randomly selected subjects in March and April, suggest that while Americans have charitable hearts, they fear that if banks are forced to provide services in unprofitable markets, those costs will be translated into higher fees or reduced services for the general population.

The concept of lifeline accounts is a politically, economically, and racially divisive issue that seems to resurface periodically. On the assumption that fees and balance requirements make it difficult for low-income consumers to maintain bank accounts for basic needs like paying the rent, some members of Congress are likely to push in coming months for legislation that would mandate lifeline accounts.

Points to be debated are how a barebones but useful account could or should be structured – such as limiting checks per month and eligibility by income – and how much it will cost financial institutions or taxpayers.

Split Decisions

Attitudes toward a lifeline banking requirement.

	For	Against	Unsure
Race			
Whites	24%	70%	7%
Nonwhites	36%	59%	5%
Income			
Under $20,000	28%	63%	9%
$20,000 - $50,000	26%	68%	6%
Over $50,000	21%	76%	3%
Age			
18-39	31%	64%	5%
40-54	26%	67%	7%
Over 55	15%	78%	7%

Source: American Banker Consumer Survey 1989

Don't Bother Us

If the *American Banker* survey is any indication, most citizens would prefer that the issue go away. The responses on this subject, coming almost entirely from people who are users of banks and other depository institutions, were as follows:

- 57% agreed that everyone is entitled to basic banking services, such as a low-cost checking or savings account,

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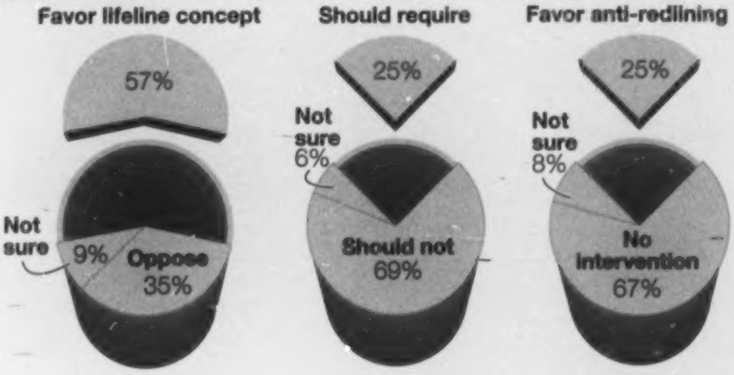
Jay Rosenstein is an American Banker *reporter in Washington.*

Lifeline and Redlining: An Unclear Mandate

A majority of consumers say everyone is entitled to low-cost, basic banking services . . .

But only one-fourth say the government should mandate it . . .

And one-fourth say the government should force banks to lend in local areas.



Percentages rounded

Source: American Banker Consumer Survey 1989

even if they cannot pay the going price. About 35% disagreed and 9% were unsure.

- 25% said the government should require free or low-cost banking services "even if the bank loses money doing so." But a strong majority – 69% – disagreed. About 6% said they are not sure.

- 25% said banks should be "required to lend locally, even if such loans aren't profitable." But 67% opposed laws mandating where loans are made and 8% gave an unclear response.

On the subject of lifeline accounts, fewer people favor legislation than in an *American Banker* poll five years ago, when 58% said the government should require affordable accounts for low-income people and the elderly poor. At the time, 37% said the government should subsidize the costs of serving the indigent, while 30% said the banks should provide the subsidy.

Because the 1984 and 1989 survey questions were phrased differently, exact comparisons are difficult, but the drift appears to be conservative.

Racial and Income Splits

The groups that most opposed government intervention were the elderly and people with high incomes. Of those over 55 years old, 79% opposed lifeline requirements and 78% opposed redlining restrictions. Of those with $50,000 or more in annual household income, 76% opposed basic banking statutes and 71% opposed laws against redlining.

Nonwhites were more inclined to want the government involved. Among nonwhites, 69% saw basic banking as an entitlement (versus 55% of whites), 36% favored laws requiring it (compared with 24% of whites), and 31% said banks should be required to offer the accounts (as did only 24% of whites).

Also more liberal than average on these issues were young adults. Of people 18 to 39 years old, 31% wanted a lifeline requirement and 33% favored antiredlining laws.

Segmenting the population of young adults a little differently, 35% of those 18 to 34 and earning less than $50,000 a year endorsed the lifeline concept and 38% liked the idea of antiredlining regulations.

The majority's suspicion of government intervention may be a legacy of the Reagan years.

"People realize there's no free lunch," said Allan Paro, director of advertising for the American Bankers Association. "Most of the people realize somebody is going to have to pay for [subsidized or unprofitable services], and they envision they're going to have to bear the cost through higher fees, interest rates, or whatever," he said.

Mr. Paro, who is responsible for most of the market research for the Washington-based trade group, said the *American Banker* survey closely tracks what he has seen in recent ABA focus groups and other consumer studies.

Neil J. Fogarty, president of the Consumers League of New Jersey, Montclair, said the *American Banker* findings may underestimate the number of consumers who would support a requirement that banks offer no-frills accounts. His reason: The phrasing of the question implied that these accounts are likely to be money losers for the bank, which may have colored consumers' responses.

"The big assumption that banks lose money is unwarranted," he said. "The industry alleges it loses money on small accounts, but they lose a lot more on loans to Brazil. I don't necessarily accept the fact that operating a traditional, retail consumer bank with lots of lit-

> **"The industry is getting taxpayers to finance a multibillion-dollar bailout of the thrift institutions. So we will not accept the idea that banks are losing money on these small accounts."**
>
> *Neil J. Fogarty*
> *President, Consumers League of New Jersey*

VOICE OF THE CONSUMER

> “If you don’t have $50 you can’t open a savings account. America is supposed to be the land of opportunity. Everyone is not getting those opportunities.”
>
> *Sixty-seven-year old, married white male living in a rural area*

tle accounts and with low-cost services would necessarily lose money.”

Mr. Fogarty cited the example of the $1.5 billion-asset Amalgamated Bank of New York, which is thriving on low-cost checking accounts and consumer loans for working-class customers. Amalgamated, which is owned by the Amalgamated Clothing and Textile Workers Union, touts its affinity to labor and its support for lifeline banking in advertisements.

Mr. Fogarty also said that basic banking services are a logical extension of the “unique social obligations” of banks.

Call for a Compromise

“They safeguard our money. They lend out our deposits. The federal government insures our deposits. The local economy depends on the banks making loans and mortgages,” the consumer advocate said. “And now the industry is getting taxpayers to finance a multi-billion-dollar bailout of the thrift institutions. So we will not accept the idea that banks are losing money on these small accounts.”

Most bankers contend that almost any no-cost or low-cost account designed by the government and not by private enterprise will end up having to be subsidized in some form, either by the institution or the government – meaning the tax-paying and banking public.

“I don’t have any beef with the issue as a public policy issue, but don’t design the product for me,” said John M. Kolesar, former president of the $40 million-asset Ameritrust Development Bank, Cleveland, which specializes in financial services to low- and moderate-income citizens. He calls for “some combination of the government and the private sector” backing the accounts.

The fact that one-fourth of consumers said banks should be required to extend certain services even at a loss indicates some people believe banks have a special responsibility.

“I think there’s a feeling in a portion of the population that banks have deep pockets and [I’ll] save my sympathy for the little guy in small business, not for the big corporation,” said Fred Manning, a community affairs officer for the Federal Reserve Bank of Philadelphia.

Mr. Manning said that banks have done a better job of developing lifeline accounts in recent years but that they can do more. For one thing, he encourages banks to promote the growth of neighborhood credit unions geared for low-income consumers, especially in neighborhoods where commercial banks might have closed branches.

Supporting neighborhood credit unions gives a bank “a chance to regain some of the image that it lost by leaving,” he said. “The hope is that the customers of the credit union can grow and then qualify for credit from the banking system.”

The ‘Unbanked’

Another finding from the *American Banker* survey was that only 2% of the respondents do not maintain any type of account at a financial institution. This figure is far below the 10% to 20% of the population that most previous research has said belong to “unbanked” households. The discrepancy can be explained by the fact that Trans Data conducted its research by telephone and could not reach low-income households without phones.

A study last year by the General Accounting Office, a research arm of Congress, showed that about 17% of the U.S. population did not have banking accounts. A Federal Reserve Board study in 1983 found that 21% of households did not have a checking account, the most basic of banking services.

With only 24 people in the Trans Data sample lacking an account, any conclusions based on their reasons for staying out of the system would not be scientifically valid. But they did make some revealing comments.

Nineteen members of this unbanked group said that at one time they had accounts with financial institutions. Nine of the 24 said they do not have accounts because they cannot afford them, and five indicated that they did not think banks were safe or trustworthy. Twelve of the 24 said they use cash to pay monthly bills, and 10 said they rely on money orders.

Many bankers contend that because of such attitudes, a significant portion of unbanked people would not sign up for a lifeline account no matter how affordable or convenient.

“Almost the same number of people who say they can’t afford a bank account are using things like money orders that are actually more expensive,” said Mr. Kolesar.

Cash Only Please

Mr. Paro of the ABA said his research has identified some people who prefer to operate in a cash-only world for reasons that range from “not wanting a paper trail for tax reasons” to “people who don’t want their spouse to know what they make.” Drug traders and other illicit businessmen also operate off the books and want to keep it that way.

But Mr. Fogarty of the New Jersey consumer group points to other research that shows rising bank fees, higher balance requirements, and branch closings in low-income neighborhoods are disenfranchising people from the banking system.

“All the people who use check-cashing outlets would use banks if banks were located in their communities,” he said. ☐

Tax Reform Prompts Many to Save More and Borrow Less

But people resist plans to deduct funds automatically from their paychecks.

BY TOM LEANDER

A new generation of savers has emerged since the Tax Reform Act of 1986.

In the *American Banker* consumer survey, 33% of the nation's consumers said they are saving more and 35% said they are borrowing less than in 1986, when the tax changes diminished the deductibility of interest on consumer loans. Thirty-one percent also said they are borrowing less on their credit cards.

But there is another side to the story: 39% reported saving at the same rate as three years ago, and 27% reported saving less. Also, 31% said they are borrowing at the same rate and 20% said they are borrowing more, while 32% reported no change in credit card use and 17% reported an increase.

"There's an air of unreality when it comes to the new generation of savers," said Charles M. Finn, president of the International Association for Financial Planning, a trade group based in Atlanta. "People aren't worrying. Forced to choose between consumption and savings, many still decide to consume."

Behind this diversity in individual strategies is a series of economic mishaps that have shaped public attitudes on finance. The stock market crash, massive increases in the federal budget deficit, and the failure of the savings and loan system have made Americans comparatively less devoted to the savings ethic than in past eras, according to analysts.

Many consumers have adopted a wait-and-see attitude toward public policy initiatives that encourage individual savings, economists say.

"The public now knows that what Mr. Rostenkowski giveth, he also taketh away," said Paul McCracken, professor of economics at the University of Michigan and former chairman of the Council of Economic Advisers during the Nixon administration. Mr. McCracken was referring to Rep. Dan Rostenkowski, D.-Ill., the chairman of the tax-writing House Ways and Means Committee.

"The ordinary, Main Street consumer has a lot more native shrewdness than the intellectual or politician will give him credit for," Mr. McCracken said.

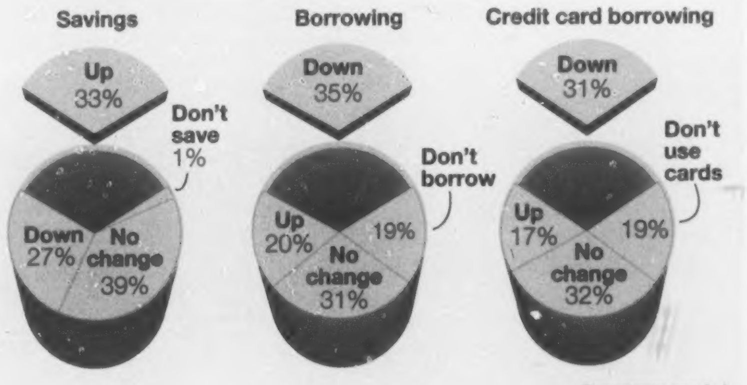
The average consumer, he said, is suspicious of legislative initiatives to create tax incentives that encourage savings.

The consumer survey revealed a striking aversion to "forced" savings plans, in which banks divert sums automatically from customers' paychecks into savings accounts. The survey also revealed a lack of enthusiasm for accounts specifically designed to save for a house or a child's college education.

Tom Leander is an American Banker *reporter in New York.*

Aftereffects of Tax Reform

About a third of consumers claim to be saving more and borrowing less since 1986.



Percentages rounded
Answers of "don't know" for 1% of respondents omitted.
Source: American Banker Consumer Survey 1989

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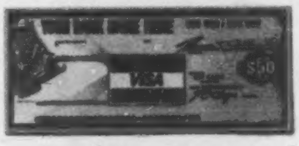

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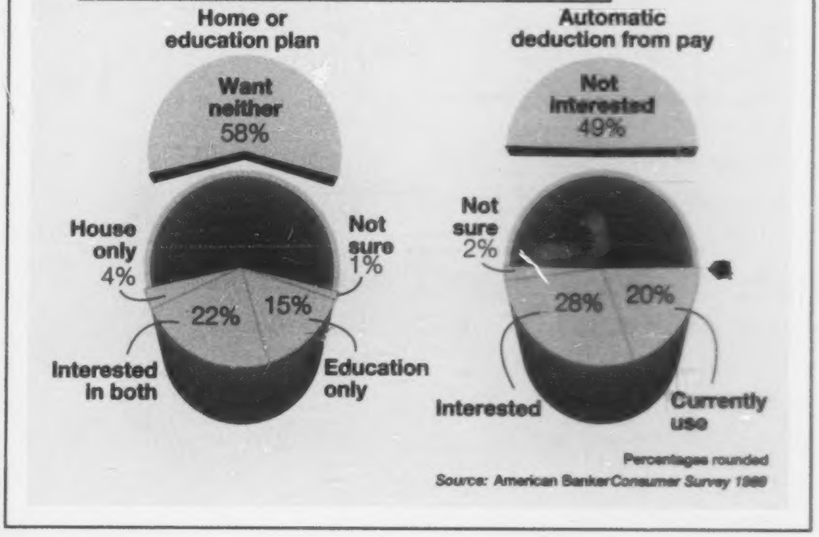
The Right to Save

Most consumers want to choose how they save, rather than be "forced" into an organized savings plan.



Percentages rounded

Source: American BankerConsumer Survey 1989

"Many people don't have enough to segment into just education or just housing or just retirement," said Stephen J. Entin, an economist at the Institute for Research on the Economics of Taxation. Mr. Entin was a deputy assistant for economic policy for the Treasury Department during the Reagan administration.

The Middle Class Saves

An increased rate of savings was most likely to be reported in households with $40,000 or more in annual income, the *American Banker* study found. Forty-three percent of the respondents in this bracket said they are saving more than three years ago.

Forty-one percent of respondents who earned $40,000 or more also said that they owed less on credit cards than three years ago.

Another sign that middle- and upper-income households have increased savings is the higher rate of savings among individuals with graduate degrees. Forty-five percent of this group said they are saving more than three years ago.

Conversely, households in the lower income brackets were less likely to increase savings. Only 17% of the respondents with incomes of $20,000 and under said they saved more than three years ago, while 47% said they are saving at the same rate.

More men than women claim to be saving at a higher rate than three years ago. Thirty-eight percent of the men and 27% of the women said they are saving more, while 21% of the males and 32% of the females said they are saving less.

A regional breakdown showed that 38% of the respondents living in the western states are saving more than three years ago, compared with 35% in the South, 31% in the Northeast, and 27% in the north central region.

These regional differences were echoed in figures on the decline in borrowing. In the West, 35% of the respondents said they are borrowing less, compared with 39% in the South, 31% in the Northeast, and 33% in the northern central states.

Nationwide, only 20% of the respondents said they are borrowing more than three years ago. The people who most frequently said they had increased their rate of borrowing were younger consumers in the higher-income bracket. Thirty-six percent of the respondents aged 18 to 34 who earn at least $50,000 a year said their household borrows more than three years ago.

Borrowing has slowed more drastically for individuals in low-income households. Of the respondents 18 to 34 years old with less than $20,000 in annual income, 46% said they are borrowing less.

The responses on credit card usage closely mirrored consumer borrowing as a whole. Among all the consumers in the survey, 31% claimed to be borrowing less on credit cards than three year ago, while 32% reported no change in credit card consumption and 17% reported spending more on their credit cards.

The young middle class has also reduced credit card spending. Of the respondents in the survey between ages 18 and 34 who earn more than $50,000 a year, 35% said they are spending less on credit cards.

Against 'Forced' Savings

Although economic concerns have driven many consumers to save more, they want to save at their own discretion, the survey found. Consumers want to grab a piece of the rock without the help of forced savings accounts, in which a specified portion of deposits is automatically placed in a savings account.

Some 49% of the nation's consumers said they are not interested in forced savings plans. The sentiment was strong among a variety of groups. For example, 55% of rural respondents and 49% of suburban respondents were against such a plan. Forty-six percent of the city dwellers said they would not favor it. Of respondents who earned $20,000 to $40,000 a year, 45% said they would not be interested in forced savings. Similarly, 42% of the respondents with annual incomes between $40,000 and $75,000 said they would not be interested.

Several such savings plans have emerged recently, primarily aimed at blue-collar and lower-middle-class consumers. Among the institutions offering such plans are Dollar Dry Dock, a White Plains, N.Y., savings bank, and Pittsburgh-based Equibank.

"The lack of enthusiasm for enforced savings may be a matter of control," said Mr. Finn of the International Association for Financial Planning. "A couple of mortgage lenders take a house payment out of your pay. Some people like to wait 15 more days if they want to."

In a related savings issue, 58% of the respondents said they would not favor an account designed to help them save for a house down payment or their children's college education. ☐

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Expedited Funds Availability: More Sound than Fury

Bankers who dreaded the law seem to have weathered it without consumers noticing.

BY YVETTE D. KANTROW

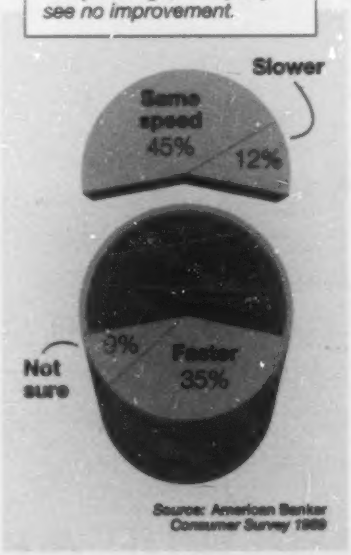
The Expedited Funds Availability Act was considered a major victory for consumer advocates. Passed by Congress in 1987 after a storm of protest from the banking industry, the law limits the time that banks can delay payment on their depositors' checks.

Now that the brouhaha has subsided, most consumers view the act as a non-event, according to an *American Banker* survey.

Nearly half of 985 financial-institution customers polled this spring said their checks take the same amount of time to clear now as they did before the expedited funds law took effect. Another 12% said they now wait longer to draw on their deposited checks.

The Speed of Checks

One-third of consumers say checks clear faster than two years ago; a majority see no improvement.



Source: American Banker Consumer Survey 1989

Under the first phase of the law, which took effect Sept. 1, 1988, banks must make funds available on most local checks within three business days after deposit, and on nonlocal checks within seven business days.

The funds-availability schedules are enforced by the Federal Reserve Board in its Regulation CC. They were developed in response to consumer complaints about excessive check holding.

On Sept. 1, 1990, maximum holding times will be shortened to two business days on local checks and five business days on nonlocal items.

The survey indicates that, so far, consumers have perceived little impact from the current schedule. Other findings regarding the new check-hold rules show that:

- The industry has been fairly effective in communicating check-hold policies to customers. Asked whether or not their institutions have a formal check-clearing policy, 53% of the respondents answered affirmatively. Another 25% said they are not sure, while only 22% stated that their financial institutions do not have a funds availability policy.

Understanding Regulation CC

Under Reg CC, banks had until Oct. 31, 1988, to provide their customers with disclosure statements that enable them to determine how long it will take to gain access to a given deposit.

- Most consumers expect funds deposited by check to be available for withdrawal the same day or on the next business day after they are deposited – a more stringent schedule than is currently required under Reg CC. An overwhelming 84% of the people who expect their checks to clear within a week said that is quick enough.

Yvette D. Kantrow is an American Banker *reporter in New York.*

- This apparent satisfaction is also demonstrated by the 85% of respondents who reported that they have not had a problem with check-clearing times.

According to industry observers, this partly reflects the fact that few people had complaints about check holds in the first place.

"A small number of people were affected by holds on their checks and they made it very public," said Royce Brown, a managing principal at J.D. Carreker Associates, Dallas. "People started saying, 'By gosh, [banks] should give me my money.'

"But even before Reg CC, when you took your check into a bank – unless you were buying a house across the country or had some other unusual circumstance – you got credit the next day," he said.

"In California, from the consumer's standpoint, the overwhelming response was, 'What's changed?' " said Gregory O. Wilhelm, a vice president at Wells Fargo Bank in San Francisco.

"Consumers in California were really bewildered. They were flooded with disclosures and they were expecting big changes," Mr. Wilhelm said.

California, like many other states, had its own check-hold law before the Expedited Funds Availability Act.

While bankers and others in the industry say the impact of the check-hold regulations on consumers has been minimal, the Federal Reserve Board has concluded otherwise. In a report on the Expedited Funds Availability Act delivered to Congress in June, the Fed said the law's impact on consumers "appears to have been positive."

The report does acknowledge a conclusion of the Federal Advisory Council, representing each Federal Reserve district, that two months after implementation the check-hold law had elicited little reaction from consumers. The Fed then decided to conduct its own research into the law's impact.

The central bank selected nine consumer groups to furnish data on how the act affects consumers. Only one group completed the Fed's questionnaire; the other eight claimed they lacked enough consumer feedback to report reliable information.

The group that participated said that more than 50% of the nation's banks have shortened holds on checks, due to the new law. Moreover, the group told the Fed, the number of complaints it received about check holds decreased after Sept. 1. This was also true for the other eight groups, the Fed said.

> **"A small number of people were affected by holds on their checks and they made it very public."**
>
> *Royce Brown*
> *J.D. Carreker Associates, Dallas*

"Prior to the implementation of the act, these groups had received numerous complaints from consumers regarding the funds-availability policies of banks," the report said. "Because the number of complaints received by these groups apparently has decreased, it can reasonably be assumed that the act has had a favorable effect on consumers and their ability to withdraw funds."

While many of these consumer groups rejoiced when the expedited funds law was passed, most bankers did not celebrate with them. The law and its resulting regulation was considered by many the most operationally complex and intricate piece of legislation to hit the banking industry in decades. Looking back, however, some say that Reg CC was less of a storm than they expected.

"Reg CC died down about two weeks before it was implemented," Mr. Brown said. "We were doing loads and loads of work on it and then banks decided to implement it in the most easy way possible."

Many banks adopted a policy of next-day availability for all check deposits, placing holds only on a case-by-case basis. These institutions decided against installing the complicated systems needed to place different holds on different types of checks.

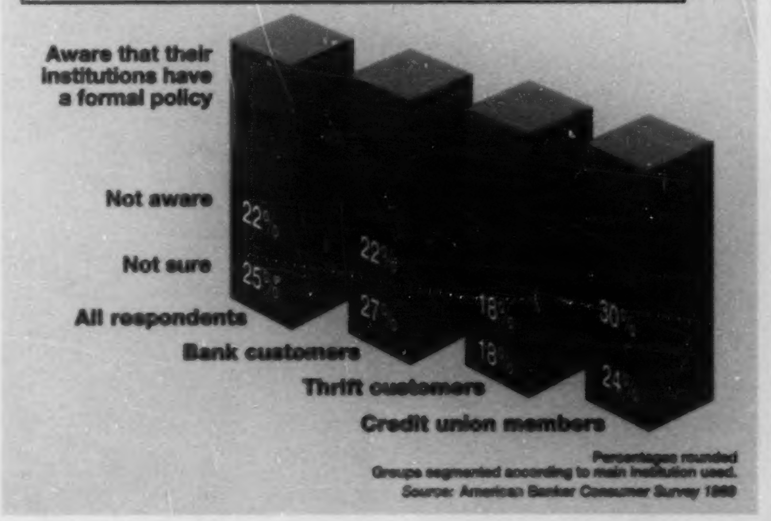
"Work on Reg CC just stopped. Consulting firms were disappointed," Mr. Brown said.

Even banks that opted to devote minimal effort to check-hold policies found themselves faced with an increased workload. Disclosures had to be sent out and employees had to be educated. With so few consumers feeling the impact of the law, some bankers are wondering if the effort was worthwhile.

"It's the space-program approach to regulation," Mr. Wilhelm said. "Set a goal that doesn't exist, and go for it."☐

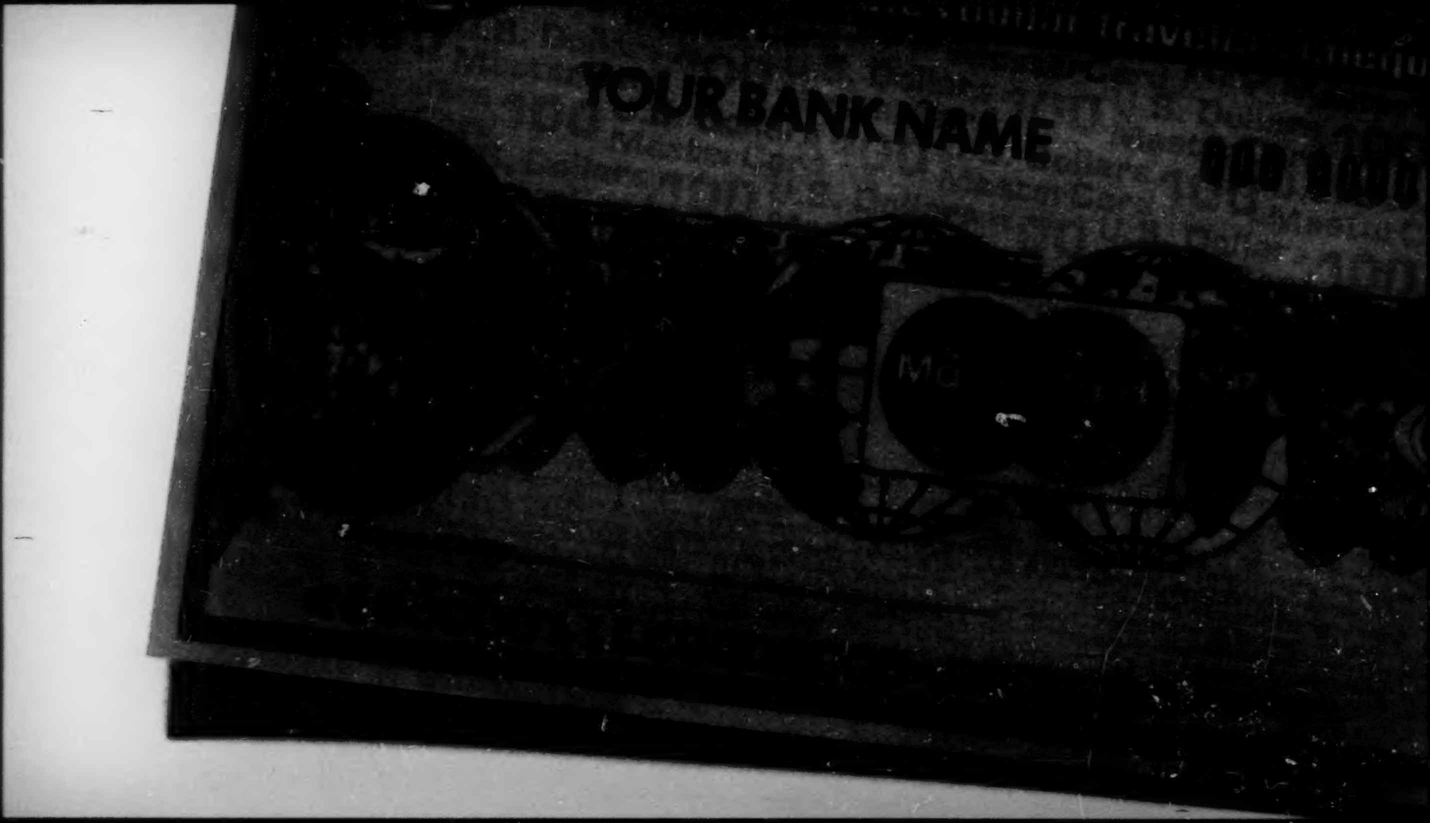
Disclosures Miss the Mark

All financial institutions must publish funds-availability policies under Regulation CC, but only half of customers are aware of them. Thrift depositors are the most aware, credit union members the least.



Percentages rounded
Groups segmented according to main institution used.
Source: American Banker Consumer Survey 1989

PARTNERSHIP HAS GREATER PRIVILEGES.



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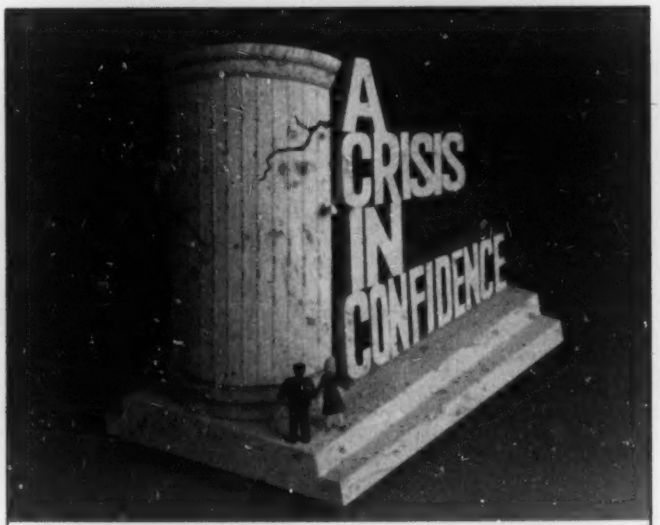
MASTER THE MOMENT

Marketing Issues



Despite all the talk of bankers honing their marketing skills, in the eyes of consumers, banks still have a way to go. The majority say they have never received a sales pitch while at a branch of their principal financial institution. And one-stop financial shopping keeps running into a roadblock; old-fashioned priorities, such as branch location, are still paramount.

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◆ Location, Location, Location 38
◆ What Sales Culture? 40

Bankers, not Customers, Talk of One-Stop Shopping

While loyal on the deposit side, people are likely to hunt for the best rates on loans.

BY HOWARD L. LAX

For a decade, retail bankers and some of their nonbank competitors have been talking about one-stop shopping for financial services. But consumers don't seem to be conversing on that wavelength.

Also called cross-selling, relationship banking, or the financial supermarket concept, one-stop financial shopping keeps running into a roadblock that is boldly evident in the *American Banker* consumer survey: People are fickle.

While virtually all consumers have a financial relationship that they identify as primary – 55% with a bank, 38% with a thrift or credit union – loyalty to an institution is another matter. Accounts may tend to be clustered at primary financial institutions, but consumers' bonds to these organizations are not equally strong for all types of products and services.

According to the 1989 consumer survey, conducted for the *American Banker* by its Wayne, Pa., research affiliate Trans Data Corp., the institutional loyalty is strongest in deposit products, especially those like basic checking that are transaction oriented or involve frequent contacts with the institution.

The link between provider and customer is weaker on the lending side and weakest when it comes to services for which consumers are known to shop around: investments, mortgages, and auto loans.

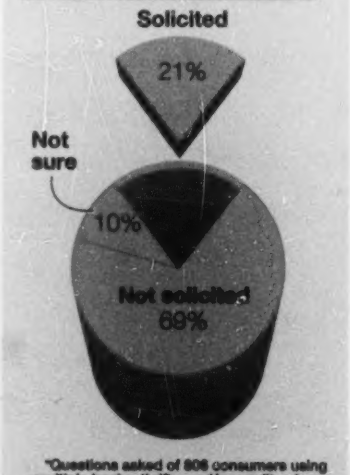
Trans Data Corp.'s interviews of 1,009 U.S. consumers, 985 of them current customers of banks and other financial institutions, tracked how loyalties changed along product lines.

For example, about three-fifths of the households with certificates of deposit have put at least one CD with the same type of institution they identify as their primary one. Bank customers are more loyal here than thrift depositors. While 83% of those whose primary relationship is with a bank have a bank CD, only 39% who consider a thrift their main institution have CDs with a thrift.

Because many households use more than one bank or thrift, the *American Banker* data do not necessarily show the extent to which people are consolidating their CDs with their main banking choices. Other Trans Data research does show that such consolidation is

Selling the One-Stop Concept

Only one in five consumers say their intitutions have approached them to place all accounts with them.*



*Questions asked of 806 consumers using multiple banks, thrifts, and/or credit unions.

Source: American Banker Consumer Survey 1989

Howard L. Lax, Ph.D., directed the 1987, 1988, and 1989 consumer surveys for Trans Data Corp. He is now an independent research consultant specializing in banking markets.

A Scorecard of Consumer Choices

Banks have a basic advantage in market penetration (penetration of households with financial institution accounts).

Institution types	Total Users*	Designated as principal institution	Average no. of institutions used	Sources of products: CDs	Mortgages	Auto loans	Credit Card**
Commercial banks	88%	55%	1.7	64%	44%	45%	82%
Savings institutions	56%	24%	1.5	24%	26%	6%	6%
Credit unions	41%	14%	1.2	8%	3%	18%	10%
Finance companies	29%	<1%				18%	
Brokerage firms	17%	1%					
Mutual funds	26%	1%					
Insurance companies	25%	1%					
Mortgage companies					23%		
Car dealers						14%	

*Includes multiple responses

**MasterCard and Visa only

Source: American Banker Consumer Survey 1989

occurring, with slightly more than 45% of consumers with CDs having at least some of these accounts with their primary institutions.

Data on mortgage products – including first and second mortgages and home equity loans – and auto loans show weaker links to the primary financial institution. In these cases, 39% of the households with one of these types of loans has gotten it from their main financial institutions.

Commercial banks, again, do best. About half of the households with mortgages or car loans who identify a bank as their primary institution have a mortgage or car loan with a bank.

By contrast, 37% of those who have their key relationships with thrifts get mortgages from those institutions. And only 12% who mainly use a credit union have a credit union mortgage.

Credit unions, relative latecomers to the mortgage business, do better in car loans. Of those who primarily use credit unions, 44% have gotten a credit union car loan. Only 14% of those with a thrift as the primary relationship have auto loans with that type of institution.

Less Need for Contact

The differences in loyalty among primary relationships, CDs, and loan products correlate with the level of service that customers require.

Unlike branch locations, checking account packages, and other attributes that define a primary banking relationship, CDs involve less frequent contact with the institution. Service requirements are minimal. Since depositors are intending to put their money away for an extended period of time, they have every incentive to shop around for higher yields – something they might not be inclined to do for more basic checking or savings products.

Loan products are even more shoppable. Physical access to the lender often is irrelevant as payments usually are made by mail. Service is equally unimportant: borrowers see themselves as paying bills, not getting any service. Interest rate differentials on loans tend to be much more apparent to consumers than rates on deposits. They seek the best deal, which often has to do with timing and amount of monthly payments.

Many car loans and mortgages are originated indirectly through dealers or real estate agents or are the result of those intermediaries' recommendations. These nonbankers are often responsible for a break between borrowers and their primary depository institutions.

Consumers may not even know that their indirect loans are coming from a bank, finance company, or mortgage subsidiary of a banking company. For example, 14% of people with car loans believe they have gotten them from car dealers. But from the consumer's point of view, it doesn't really matter.

Nonetheless, the primary financial relationship provides the most solid foundation for cross-selling additional products and services, and this gives commercial banks a leg up on the competition. All things being equal, the primary financial institution – PFI to many in bank marketing – has a built-in advantage in trying to corral more of a customer's accounts.

"One-stop financial services implies providing most things to some people, not all things to all people," said Les Dinkin, a senior financial services consultant with KPMG Peat Marwick, New York. "The industry is clearly moving in this direction, though perhaps not as fast as it might. The more sophisticated, larger organizations are leading the way."

Indeed, banks are acquitting themselves well in the drive to consolidate accounts. Among people above $50,000 in annual income, 60% identify a commercial bank as their principal institution. Of these higher-income people with CDs, 66% have gotten them from a bank.

Promoting loyalty on the borrowing side is more difficult but not impossible. The primary institution is in an ideal position to meet customer desires for economical terms and easy payments, perhaps through simplified or preapproved applications, preferential interest rates for people who consolidate accounts, and a direct payment plan in which monthly installments are automatically debited from checking accounts.

Look Deeper

But it would be a mistake to equate the full-service bank's ability to meet multiple needs with the consumer's willingness to consolidate accounts in one place. Those decisions are more complex than the one-stop advocates once assumed, and the banking public's motivations and behavior may not have been fully understood.

Consumers simply never bought into the logic of one-stop shopping for banking and financial needs, and bankers may have caught on to the resistance. Only 21% of the respondents to the *American Banker* survey said they had received solicitations from any of the institutions they deal with to consolidate accounts. Just under 70% reported never receiving such solicitations, and 10% said they were unsure. ☐

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Location Still Prime Factor In the Choice of a Bank

Availability of ATMs is relatively unimportant, despite their popularity.

BY JUDY TEMES

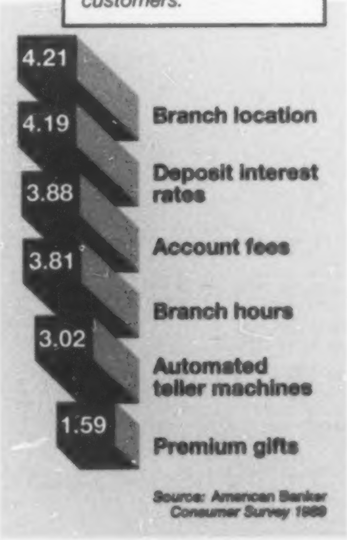
An old retailing adage – that the three most important factors in success are location, location, and location – applies equally to retail banking, according to the annual *American Banker* consumer survey.

Despite the banking industry's recent emphasis on electronic distribution systems, customers still cite branch location as the most important reason for choosing one financial institution over another.

Automated teller machines are well down on the list of factors influencing the choice of a bank. They are outranked by branches, deposit interest rates, account fees, and hours. Even people under 40 years old – the group most taken with ATMs – tend to rate branch locations, rates, and fees as more important than ATM availability.

What People Look For in a Bank

Mean scores on scale of one to five, given by financial institution customers.



Source: American Banker Consumer Survey 1989

Branch hours are less important than ATMs to the under-40 population, presumably because they know they can visit the machines anytime.

These are among the findings from the sixth annual *American Banker* consumer poll. Trans Data Corp., the newspaper's research affiliate in Wayne, Pa., interviewed 1,009 randomly selected people across the country in March and April.

Almost 8 of 10 respondents said branch location is an important or very important reason for choosing a bank. Only 1 in 10 said it is of little or no importance.

Averaging all the answers on a weighted scale of 1 to 5 – with 1 signifying no importance and 5 the greatest importance – branch location scored a 4.21. This rating compared with 4.19 for interest rates, 3.88 for account fees, 3.81 for branch hours, 3.02 for ATM availability, and 1.59 for gifts in return for opening accounts.

Thus, the survey confirms the traditional view that location – and convenience in the broader sense – is more important than price.

"People today want value. They want fast, friendly service, and they are willing to pay for it," said Justin L. Moran, a banking consultant in Ann Arbor, Mich.

The findings also confirm that a strategy aimed at cutting back on branches in favor of a less labor-intensive, electronic delivery system may not be as good a marketing idea as many bankers thought a few years ago.

"Customers still like to come into the

Judy Temes is a business writer in New York.

branches," said David R. Bennett, chairman of Omega, a San Francisco consulting firm that specializes in branch management and training programs for banks.

But experts say it would be wrong to conclude that banks should start indiscriminately building branches to gain market share. Before interest rates were deregulated in the 1980s, the cost of gathering deposits was much lower and banks could more easily afford to build large branch networks.

Economic Pressures

Despite the obvious appeal of location, the rising costs of both real estate and deposits have forced a refinement of branching strategies, said Edward Furash, the head of the Washington-based consulting firm Furash & Co.

A single branch can easily cost $1 million to build. To be profitable, it must attract $20 million to $25 million in deposits, Mr. Moran said. And that's not easy.

The economics are forcing more and more banks to consolidate, relocate, and open new branches in growing neighborhoods. They are also building minibranches.

"It's not only a worthwhile thing to do," Mr. Furash said. "In today's competitive atmosphere, it's imperative."

While accessibility remains important to consumers, brick-and-mortar locations are not the only means of providing it. "ATMs are an important aspect of the delivery system," said Joseph D. Belew, president of the Consumer Bankers Association.

"We can't afford the brick-and-mortar networks of before," said Robert Hutchinson, senior vice president for retail banking at Manufacturers Hanover Trust Co., New York. ATMs, telephone banking, and other less costly delivery systems have allowed Manufacturers to expand its retail base more efficiently. Expense control, said Mr. Hutchinson, is one of the most important elements of retail banking.

Although location remains foremost on the consumer's mind, the process of choosing a financial institution has become a lot more complex than 20 years ago, when location was the only factor. So while consumers value service and convenience, they are also concerned about rates and prices.

At 4.19 on the 1-to-5 scale of importance, interest rates are statistically equal to branch location. When respondents were asked what criterion they would consider most important if they were choosing a new institution, 28% said interest rates. On this question, branch location fell to second place, at 23%. No other factor was mentioned by more than 9%.

Surprisingly, 82% of people earning less than $20,000 a year said interest rates were important or very important in choosing a bank. This figure was in line with the 78% of the general population but well above the 72% response from those making $75,000 or more. This suggests that lower-income people are more closely tied to nearby banks.

As might be expected, customers of savings institutions and credit unions gave interest rates higher scores – 4.40 and 4.20, respectively – than the 4.08 of commercial bank customers. This would confirm the widely held belief that commercial bank customers look mainly for convenience and thrift and credit union customers look for price.

Consultants say it would be a mistake to read too much into the interest rate scores. People will say interest rates are important to them when asked, but will behave differently.

"People are irrational about their financial decisions," Mr. Furash said. "They will choose a bank for far less concrete reasons, such as good service."

Emphasizing Service

A minority of 7% said good service or a personal touch is their most important reason for choosing a bank. The figure goes up among those at or near retirement: 14% of respondents 55 to 64 years old said good service is the most important factor in their choice of a bank. None mentioned ATMs.

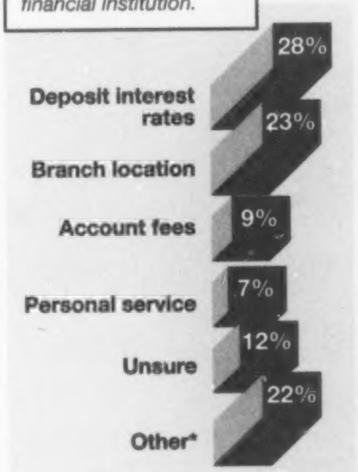
Bankers are hoping that consumers will pay more attention to service, since competing on the basis of price is becoming more and more difficult. An emphasis on service quality allows banks to "prosper without giving the store away," Mr. Moran said. It allows an institution to differentiate itself noticeably from competitors.

"Consumers value more aspects of a bank's offering" than they did before deregulation, Mr. Belew said. "And that means banks have to compete on a number of different fronts. It makes competing more difficult because there are higher expectations to be met."

Given the increasing popularity of ATMs, the machines ranked surprisingly low as a reason for selecting a bank. With an average score of 3.02, ATMs were important to only 44% of consumers in the study. Forty-one percent said ATMs were of little or no importance in their choice of a bank.

Choosing a Bank

What depositors would deem most important in selecting a new financial institution.



*Includes bank security and soundness (5%), branch hours (3%), and ATMs (2%).

Source: American Banker Consumer Survey 1989

As expected, ATMs appealed most to younger people. Of those 18 to 39, 59% said it was an important element in their choice. Only 19% of those over 65 said the same. ATMs were also slightly more important to city dwellers than rural residents.

But these numbers do not mean that ATMs are truly unimportant, observers said. The relatively low ATM scores may mean only that people take them for granted. "It's like asking a bank if they offer a checking account," Mr. Moran said. "The guy that doesn't have it has a serious problem."

Gifts for new accounts scored worst of the attributes tested in the survey. More than 80% said such gifts were of little or no importance. Banks, accordingly, have for the most part abandoned this sales technique.

"It was just a fad," said Mr. Belew of the Consumer Bankers Association. "They were offered, but I don't think consumers ever really cared." ☐

Bankers Balk at Learning How to Get Foot in the Door

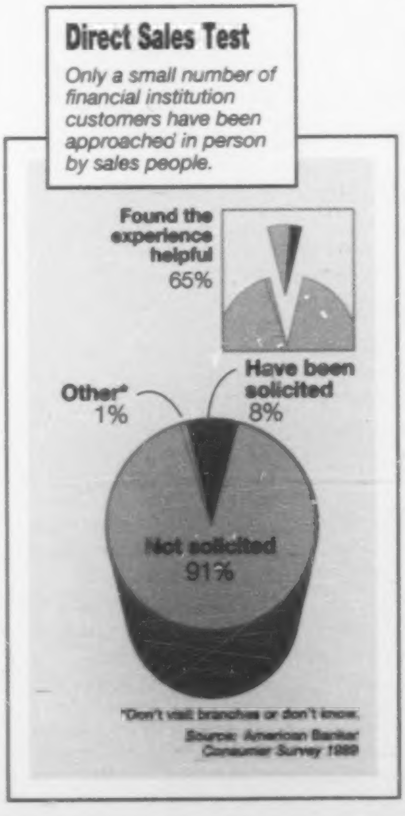
Those who accept sales as part of the routine stand a better chance of boosting business.

BY DONALD SHOULTZ

For the second year in ~~a~~ row, the *American Banker* consumer survey has found that the financial services industry's much heralded sales culture is having scant impact on the retail market.

Fewer than one in 10 American consumers surveyed this year reported that they had received a sales pitch while in a branch of their principal financial institution.

Telephone sales efforts are similarly anemic. Although 32% said they had received telephone calls from their financial institution, only about 2% of consumers characterized those as sales calls.



Direct Sales Test

Only a small number of financial institution customers have been approached in person by sales people.

*Don't visit branches or don't know.

Source: American Banker Consumer Survey 1989

The results, derived from the sixth annual consumer survey conducted for the *American Banker* by its research affiliate, Trans Data Corp., suggest that banks and other depository institutions generally have not adopted the vaunted sales culture. The survey was administered to 1,009 randomly selected consumers nationwide during March and April of this year.

"There are a limited number of banks doing a lot of good work in sales," said John A. Russell, vice president and director of marketing at Bank One Corp., Columbus, Ohio. "I think everybody talks a good game, but few are actually doing it and measuring it and paying people for doing it."

One of the biggest problems in the development of a sales culture is the issue of role conflict: Bankers want to be bankers; they don't want to be salespeople.

"That's where the battle is being fought every day," said James Schneider, president of Schneider Sales Management Inc., a consulting and training firm in Westmont, Ill.

Unless that basic conflict is resolved and it becomes acceptable for bankers and thrift executives to view themselves as sales managers, there will be little industry-wide movement toward a sales culture.

What progress there has been so far to foster salesmanship in the nation's financial institutions has gone largely unnoticed by customers. American consumers reported experiences with banks' sales efforts that were remarkably similar to those reported in the 1988 *American Banker* survey.

The vast majority of consumers again said that branch personnel had

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Donald Shoultz is an American Banker *reporter in New York.*

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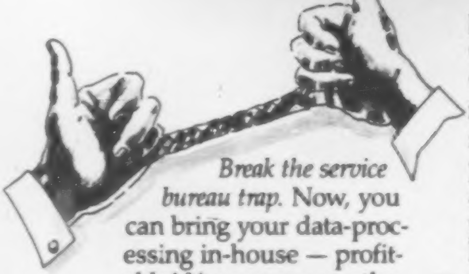

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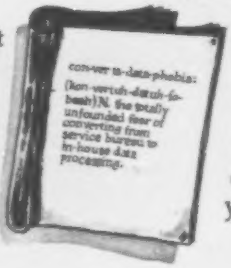

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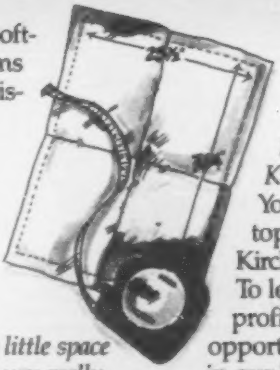

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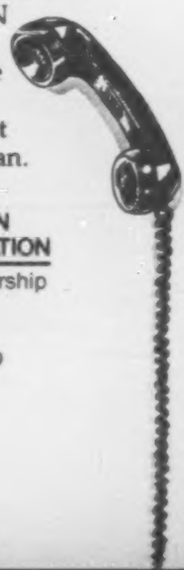

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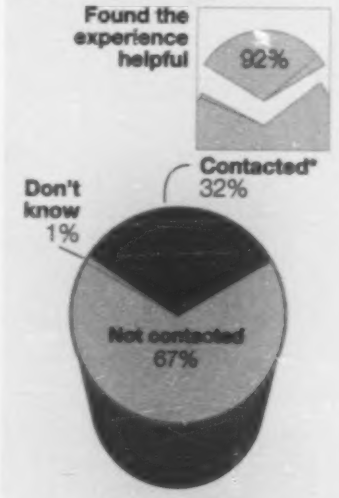
Telephone Sales Test

About a third of consumers have gotten telephone calls from their financial institutions.



*Of these contacts, 43% were sales or informational calls. The rest were problem resolutions and returned calls.

Source: American Banker Consumer Survey 1989

never tried to sell them anything. Mr. Schneider said in-branch sales efforts may now actually be in decline.

"Everybody has fallen in love with direct mail and household data bases," said Mr. Schneider. "And there's a little bit of a feeling that we can rely on our mailings to do our selling."

Many institutions have installed the basics of a sales management system – tracking, incentives, and training. "They're doing the surface things," Mr. Schneider said. But now there is a tendency to rest on that infrastructure without making a daily commitment to managing the sales efforts.

As expected, more affluent, better-educated consumers were more likely to hear a sales presentation. There was little difference based on the age of the respondent. And there was no discernible difference between bank and savings and loan customers.

Those who do most of their financial business at a credit union were somewhat less likely than others to get an in-branch sales pitch.

While the number who remember an in-person sales contact is small at 8%, this group seems receptive. Of these people, 65% called the experience of dealing with a salesperson helpful, and 46% said they accepted a product or service as a result.

The number of sales approaches was down from 1988, when 13% said they encountered an in-branch salesperson. Of that group, 61% found the encounter helpful and 36% said they made a purchase.

In 1988, 9% said they were offended by the in-branch sales presentation. This reaction was given by 7% this year.

Offensiveness Ratings

Bankers and consultants who specialize in sales training and sales management were particularly concerned about the offensiveness ratings.

Some customers will always resist sales talk, and experts said the 7% figure indicates that the industry's sales culture is in its infancy and requires more and better staff training.

Some bank employees may simply be pushing products at consumers pell-mell. Sales experts said that properly executed sales techniques should be perceived as extremely helpful because they are designed to respond to customer needs.

The fact that staffers tend to aim their sales pitches at affluent customersalso suggests that the industry needs to take a more sophisticated and broader-based look at sales training.

But one money center banker cautioned against taking the survey results as gospel.

Citing his experience in the New York City market, Robert Hutchinson, senior vice president at Manufacturers Hanover Trust Co., said these results may understate the true effectiveness of bank sales efforts.

"The way the question was asked may not be indicative of how much banks have improved their skills," he said. Many successful cross-selling efforts that focus on building customer relationships by adding accounts and services will not be recognized by customers as sales pitches, he said.

"I think we've improved in selling. Things are getting better. I don't think they are where they have to be, but I think they're better than they were two or three years ago."

Despite bankers' growing interest in telephone marketing, 67% of consumers said representatives of their principal financial institution have never contacted them by phone.

For the 32% who did get calls, the purpose in most cases was to address a problem or convey information. Consumers characterized only a handful of these conversations as sales calls.

Almost half of the people reporting calls (46%) said they dealt with problem solving, while 36% gave information, 13% were returned calls, and 7% were seen as sales pitches.

"That doesn't surprise me at all," said Mr. Russell of Banc One. "Again you see the dichotomy of a small number of banks doing a real good job and a majority of banks not doing anything."

Market research clearly shows a tremendous potential to sell additional products and services within a week or two after a customer has opened an account. "Yet virtually no institutions are doing it," said Mr. Schneider, the sales management consultant.

"All the talk about relationship banking has been a lot of baloney in terms of the way it is actually implemented," he said.

Focus on the Affluent

As would be expected, the better educated and more affluent customers are more likely to be contacted. This probably reflects the greater attention bankers give these customers, as well as the more varied and sophisticated financial and informational needs of this group.

Among respondents with annual household income under $20,000, only 20% remember a telemarketing call. But 32% of those earning $20,000 to $49,999 reported such a contact, as did 43% of those with income of $50,000 or more.

A whopping 92% of those contacted considered the calls helpful. About 13% opened an account in response to a phone call. Of this small subgroup, the opening of an account was twice as likely among credit union users as among bank or a savings and loan customers.

Most bankers and consultants interviewed said they were disappointed but not surprised at the low level of in-person and telephone sales attempts. Looking for good news in the data, some said that the poll will show bankers and thrift executives that there is a vast opportunity for them to beat their competition by doing a better job at selling.

"I'm very pleased with those statistics," said Mr. Russell, "because it leaves more room for me." ☐

Bank Cards

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Whether it is the traditional credit card or the lesser-known debit card, the way consumers accept and use these products shapes the industry. Like most frills added to core products, credit card enhancements seem to be wasted on the majority of cardholders. On the debit card front, bankers seem to have made little headway.

♦ Enhancements Draw Yawn 44
♦ Debit Cards Make Little Dent 50

Credit Card Enhancements Draw Yawn from Consumers

They say they would prefer lower interest rates or smaller annual fees.

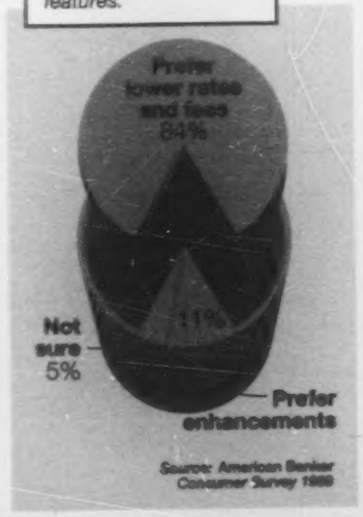
BY DONALD SHOULTZ

Although a large majority of American consumers recognize that their bank credit cards offer special benefits such as travel services and group insurance, most cardholders told the *American Banker* annual consumer survey that they have not made use of the enhancements.

The *American Banker* survey, conducted by the newspaper's research affiliate, Trans Data Corp., found that Americans value the extra benefits attached to their credit cards, which many banks have introduced in recent years to increase their appeal. But consumers would gladly forego the frills in return for lower interest rates or annual fees.

An Easy Tradeoff

Most consumers would choose a credit card with lower fees and interest rates over one with enhanced features.



Source: American Banker Consumer Survey 1989

All things being equal – that is, with rates and fees the same – many cardholders said they would opt for a card with enhancements. When those things are not equal, however, a whopping 84% of those that have an enhanced bank card said they would prefer a card with no benefits and a lower interest rate or annual fee.

Only 11% found a card with enhancements more attractive than one that costs less.

Bank card marketers and consultants are divided on how to interpret this result.

"It's a truism in consumer research that when one asks, 'Is my price too high?' the answer is invariably yes," said Donald J. Auriemma, president of Auriemma & Co., a Garden City, N.Y., consulting firm. "The price is always too high."

Bankers say that the behavior of consumers may not conform to their stated opinions or attitudes. In the real world, price is not isolated and becomes only one factor in the decision to sign up for a credit card.

Others were not so quick to discount the questions that the survey raises about the effectiveness of credit card fringe benefits. They said the result may indicate a growing price sensitivity, which card marketers should heed.

"I don't think it's a knee-jerk reaction," said Stephen Szekely, a vice president at Payment Systems Inc., a Tampa, Fla., research firm. "I think it's probably a pretty accurate assessment of the way consumers feel and behave."

Mr. Szekely's own research shows that a majority of consumers say they pick one card over another because of either rate or fee.

Credit card enhancements were introduced by card marketers to differentiate their maturing products in a crowded marketplace. But now the enhancements have become nearly universal, to the point where the enhance-

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MasterCard, Visa Help Institutions to Differentiate By Sharing Space on Credit Card for Brand Identities

Only 4% of the consumers interviewed for the *American Banker* survey were unable to identify the institutions that issued their credit cards – and that's a triumph for MasterCard International and Visa International.

Since 1981, the two organizations have gradually been shrinking the space on the card reserved for their familiar logos. Where once those logos occupied the entire card, now financial institutions have most of the area available for their own marketing designs.

The objective was to let the banks better project their identities, becoming relatively more prominent in the minds of customers who may have been confused about who supplied their credit. MasterCard's dual-circle symbol now occupies 20% of the card face and Visa's tricolor design is down to about 15%.

Where's the Bank?

The policy allowed for the rise of affinity-group credit cards and other special-interest products, such as cards bearing the logos of sports teams, where even the card-issuing bank's name may be hard to locate.

Historical comparisons of issuer recognition cannot be made because this was the first year that the *American Banker* probed whether consumers could identify their card-issuing institutions. It is also likely that not every answer was accurate.

But it is clear that people are not confusing MasterCard and Visa with their card-issuing banks. And if there are some consumers who believe that an affinity group, such as an alumni or professional association, issued their credit cards, their misunderstanding did not show through.

Allowing for multiple responses by cardholders with more than one bank card, 82% said their issuer is a commercial bank, 10% said it is a credit union, and 6% a thrift institution. (Thrifts have actually issued more cards than credit unions, but some consumers do not differentiate between banks and thrifts.)

FIRST BANK
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SHRINKING LOGO: The once dominant Visa mark now occupies about 15% of the card, giving banks more room to promote their role.

Another 3% cited other types of institutions and 3% did not know or refused to answer.

Only 1% of cardholders said they obtained their credit cards from MasterCard or Visa – a response that might have been much more common 10 years ago.

"I suspect the response would have been much different as recently as three years ago," said John H. Bennett, senior vice president of Visa U.S.A., San Mateo, Calif. "The change was made with exactly that objective in mind."

He said the Visa and MasterCard strategies "fly in the face of what brand managers and advertisers do instinctively, which is to make their names as prominent as possible. We at Visa are blessed with a name that stands out on its own, even if small and at a distance."

Mr. Bennett likened the sharing of brand identities to the relationship between a local automobile dealer and the nationally known manufacturer whose cars it sells.

"It's a partnership," Mr. Bennett said. "I don't think it's harmful in the least."

Through card designs and other ploys, banks have indeed been asserting their individuality and, to a degree, independence from the international networks.

"The smaller size of the logos had a lot to do with the awareness" of card-issuing institutions, said Denny D. Dumler, executive vice president of Rocky Mountain BankCard System, an affiliate of Colorado National Bank of Denver. "The business of differentiating one card from another has become much more important over the last couple of years," through both affinity programs and various marketing approaches.

It's Not Just Any Card

One approach that has recently gained national prominence is a television advertising campaign of Citibank. Following testimonials from customers who have received extraordinary service from bank personnel, the tag line reads: "Not just MasterCard (or Visa). Citibank MasterCard (or Visa)."

That type of campaign can have a broad impact. Citibank has issued more than 10% of the estimated 200 million bank credit cards in circulation in the United States, and by driving home the point that a single bank is responsible for the service, Citibank may indirectly be assisting its competitors.

The New York bank may also be helping to refocus attention on the MasterCard and Visa identities. According to a consumer survey last year by Landor Associates, a corporate-image consulting firm in San Francisco, neither Citibank nor any other single financial institution had the name recognition of MasterCard and Visa.

— Jeffrey Kutler

From page 44

ments have taken on the sameness of the cards they were supposed to differentiate.

"I wonder if we're really looking at something that's kind of waterlogged at this point," said Michael P. Sullivan, a bank marketing consultant based in Charlotte, N.C.

Of all the consumers polled for the 1989 *American Banker* consumer survey, 68% said they have a Visa card, a MasterCard, or both. Of that group, 68% said they have a bank card with enhancements.

Bankers and consultants are quick to point out that this result gauges consumer awareness, not market penetration. Since virtually all banks offer a package of enhancements, some consumers may no longer be paying attention.

When survey respondents were quizzed further on what benefits they had available, the most frequently mentioned were card registration services, travel services, discounted life insurance, rebates on purchases, and frequent-flyer points.

Like most frills added to core products, card enhancements seem to be wasted on the majority of cardholders. Most cardholders either were not aware, did not value, or did not use their card enhancements.

When consumers who have enhanced cards were asked if they value the benefits, a minority of 41% said they do value the enhancements. Nearly two-thirds, or 64%, say they have not used any of the special benefits available on their cards.

Popularity of Travel Services

Among cardholders who have taken advantage of the enhancements, travel services were the most popular, mentioned by 13% of the respondents. Card registration (9%) and frequent flyer points (7%) ranked second and third on the list of benefits that consumers use.

"One of the real difficulties that card issuers have to deal with today is creating value with enhancements. And what we are seeing here is that we might not be creating perceived value with the vast majority of people," Mr. Sullivan said.

"The relatively low level of value reflects the idea that things like card registration and life insurance availability are pretty common," Mr. Szekely said.

The conventional wisdom has been that card enhancements improve direct-mail response rates. Card marketers enthusiastically embrace enhancements as a cost-effective way to differentiate their cards from the offers overflowing the nation's mailboxes.

But others are beginning to question that assumption.

Bank marketers seem to have split into two camps on the value of enhancements as a sales tool. In tests with full-blown enhanced card packages versus plain cards with few or no enhancements, some say the spartan cards will lure more customers.

The bankers account for this behavior by postulating that page after page of direct-mail copy devoted to the added card benefits just tends to confuse consumers.

The other school of thought points to other tests showing that direct mailings for enhanced cards do better. These marketers contend that providing more reading matter helps get the consumer more involved in the sales process.

Do Consumers Care?

Most bankers and consultants think the survey results support the notion that enhancements have a limited ability to sway potential customers.

"Enhancements alone don't separate you and don't encourage people to use the card," said Don Berman, president, CMS Associates, a Garden City, N.Y., card industry consultant.

"I don't think you can separate the enhancements from the total package that is being offered and who it's being offered by," Mr. Berman said. "People respond to the total offer," including rates and fees.

Most consumers have more than one bank card in their wallets. Certain enhancements can differentiate one card and make it the card of choice at the point of sale.

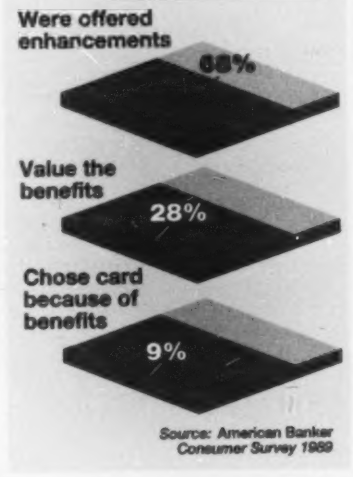
But it very much depends on the specific enhancement. The survey results suggest that the overall impact of enhancements on card usage is weak.

While most carriers of multiple cards say they do not use one card more often because of enhancements, a small core of cardholders base usage on these special perks.

"I would wager that a huge proportion of those 14% are talking about a couple of specific enhancements," Mr. Auriemma said. For example, people enrolled in airline bonus mileage programs tied to a credit card use those cards heavily. "Bonus miles clearly motivate people to use the card."

A Dubious Incentive

Enhancements fail to persuade Visa and MasterCard holders to use one card over another.



Source: American Banker Consumer Survey 1989

Even though most enhancements seem to have little impact on cardholder usage and product differentiation, these card frills are unlikely to go the way of the horse and buggy any time soon. If nothing else, many bankers feel they have to offer enhancements just to meet the competition.

"If the competing card has nine enhancements and yours has none, are you still in a competitive position?" Mr. Auriemma asked.

"By putting a handle on the bottle of bleach, you've enhanced it. But once all the competition has it too, you're stuck," the consultant continued. "You have to have the handle on the bleach. It's not going to sell you more bleach. But if you take the handle off, you'll sell less bleach," he said.

"Marketing is as much sizzle as it is steak and given that you've got a commodity product, anything that can put a little gloss on the package is a plus and can have an impact on response rates," Mr. Szekely said.

"If it makes the difference between 10% attrition [of accounts] and 11% attrition, then it certainly is worth having," said Mr. Szekely. "The ideal situation is to add an enhancement that shows you care, even if you don't, just before renewal time." □

Michigan National Bank

"It made little sense to promote Visa Cards alongside a competitor's travelers cheque. We're extremely pleased with the sales we've enjoyed since switching to Visa Travelers Cheques."

Robert J. Mylod
Chairman & CEO, Michigan National Bank

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"With Visa, our Travelers Cheque business continues strong and our customers seem highly satisfied."

Coleman McGehee
Chairman of the Board, Sovran Bank, N.A.

HIBERNIA
National Bank

"Visa allows us to provide the convenience of travelers cheques to our customers without letting our competition in our front door. Furthermore, Visa Travelers Cheques are simply more profitable."

O.C. Russell, Jr.
Vice Chairman, Hibernia National Bank

Don't worry. The

If you've ever had even the slightest doubt about the prudence of switching from American Express to Visa® Travelers Cheques, we invite you to read above the rave reviews we've gotten from those who have already switched.

They like the marketing consistency of adding Visa Travelers Cheques to their other Visa products. They like having their own name on the cheques they sell.

They like not having to promote American Express, a company which, after all, is a most serious competitor.

And they like the fact that while doing all of the above they continue to enjoy excellent sales and profits.

In fact, during 1988, U.S. sales for Visa Travelers Cheques were up 9% to $2.9 billion.

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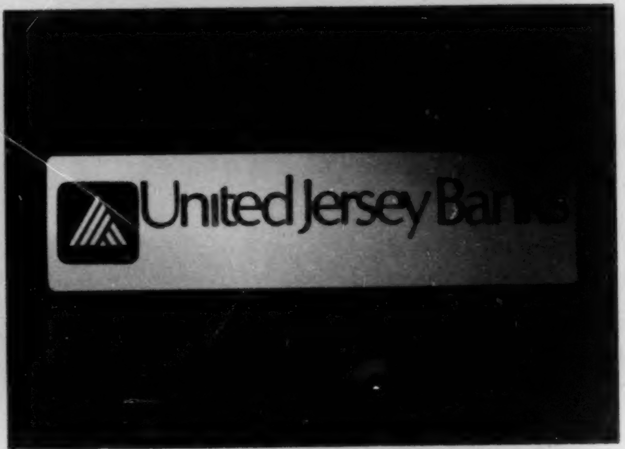
Bank of Hawaii

"Visa Travelers Cheques have been a highly successful venture. Sales are brisk and continue to grow every year."

Thomas J. Kappock
Executive V.P., Bank of Hawaii



"The Visa Travelers Cheque gives us the two key ingredients for success. Acceptability by both customers and merchants. Plus an efficient worldwide network for refunds which eliminates hassles."

Charles A. Maraziti
V.P., Product Development, United Jersey Banks

"Since we switched to Visa Travelers Cheques, sales have stayed very strong. And, believe me, I rest easier knowing I am no longer helping a competitor."

Richard H. Evans
V.P., Chase Manhattan Bank

"As a major issuer of Visa Cards, this opportunity to promote our name and logo on Visa Travelers Cheques offered us a logical brand extension. Our decision to move to Visa has been a very good one."

Jack L. Irwin
Executive V.P., U.S. Bank Consumer Service Group

cheque is good.

Worldwide they were up 21% to $10.5 billion during the same period.

In comparison, American Express worldwide sales for the corresponding period of 1988 were up only 7%.

Which is the kind of success you can continue to expect from a superb product, backed up this selling season by an extensive national TV and print campaign.

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For more information on how you can join the Visa Travelers Cheque program, call us in San Mateo, CA, (415) 570-2120 or in McLean, VA, (703) 827-8404.

Debit Cards Make Little Dent In Consumer Consciousness

Marketers find it hard to prove any real advantages for users of point-of-sale systems.

BY REBECCA COX

Although promoters of electronic banking are convinced that debit cards are catching on, the *American Banker* consumer survey shows that consumers are not lining up to use them at the point of sale.

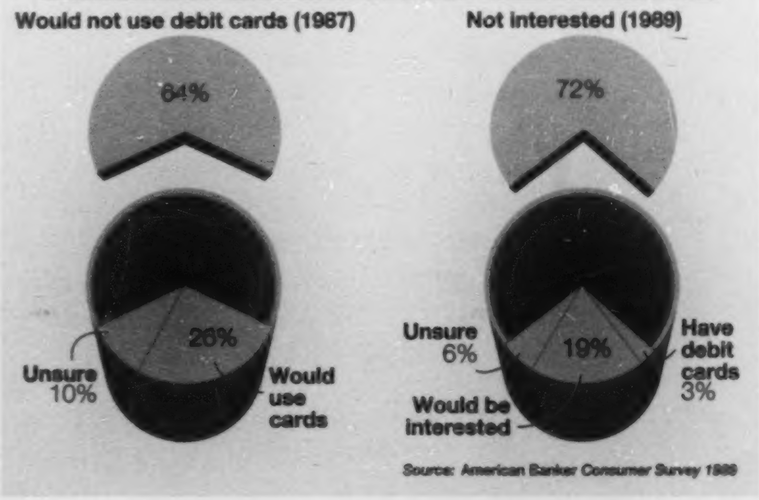
Receptivity to plastic cards that pay for retail goods directly out of bank balances has changed little since 1987, despite ambitious campaigns to promote the cards in many regions.

Of the consumers polled earlier this year by Trans Data Corp., a research affiliate of the *American Banker*, 3% said they currently use debit cards to make retail purchases, and 19% said they would be interested in such a service. The total of 22% was slightly below the 26% who expressed interest in the 1987 survey, but the four-point difference is within the statistical margin of error.

Are Debit Cards Losing Ground?

Since 1987, when two-thirds of consumers expressed no interest in debit cards. . .

The banking industry has made little, if any, marketing progress.



Source: American Banker Consumer Survey 1989

In the latest poll, conducted last March and April, 72% said they are not interested in using debit cards to pay electronically for goods and services. In the 1987 survey, 64% responded that they were not interested.

These findings suggest that bankers have not succeeded in their efforts to educate consumers on the purported convenience and benefits of using debit cards in place of cash, checks, and perhaps even credit cards.

"I, as a consumer, have a hard time understanding what's in it for me," said Les Dinkin, senior manager of financial institutions consulting at KPMG Peat Marwick, New York.

"The question is, What's the benefit of a debit card to the consumer? It's hard to tell. It's not as clear as on the check, where you get the obvious benefit of float."

But banking executives who actively support debit cards say the survey failed to pick up advances in the field.

"That really surprises me," said Douglas K. Freeman, a senior vice president of Wells Fargo Bank, San Francisco, when apprised of the *American Banker* results. Their failure "has got to be in how the question was asked," said Mr. Freeman, who is chairman of the management committee of Entree, the debit card program sponsored jointly by Visa U.S.A. and MasterCard International.

Although Entree has not gotten off the ground after three years of planning, Mr. Freeman and others point out that automated teller machine cards are being used with increasing frequency. In several parts of the country ATM cards are also usable as point-of-sale debit cards.

Rebecca Cox is an American Banker *reporter in New York.*

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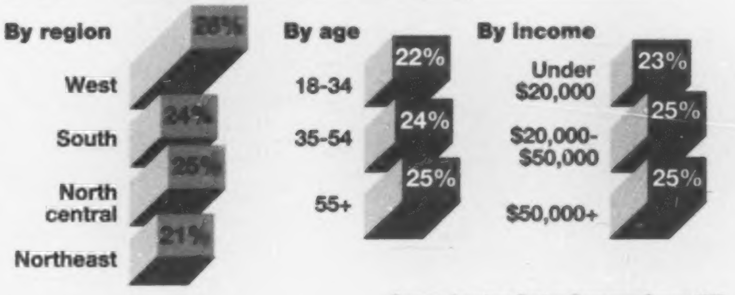
Slight Differences in Debit Card Awareness

Percentage of respondents who say their institutions offer debit cards.



Source: American Banker Consumer Survey 1989

The *American Banker* survey asked consumers if they would use "a card which deducts the amount of the purchase from your checking or savings account automatically. This type of card is not a credit card because the money comes directly out of your account."

The word 'debit' – which many contend has negative connotations – was not used in the question.

A survey question asking respondents if they would be interested in using their ATM cards in stores would have revealed higher receptivity, Mr. Freeman said.

"They [consumers] don't understand" debit cards, he conceded. "If the survey had asked, 'How would you like to buy your groceries without writing a check, or paying in less time than cash takes?' there would have been a more positive response."

Marketing Deficiencies

A debit card's convenience is outweighed by other factors, according to Stephan P. White, chief executive officer of Global Concepts Inc., an Atlanta-based consulting firm.

"I don't know that a debit card is always the most convenient thing," Mr. White said. "When I think of my own payment habits, I don't think a debit card would be more convenient at a McDonald's or a Mobil station. A $5 bill works best at McDonald's, and I have a 30-day grace period [for payments] with my Mobil credit card."

He said that consumer resistance may indicate a lack of marketing by financial institutions.

"I don't see a lot of marketing – a lot of mass-media advertising by automated teller machine systems or by the vendors themselves," Mr. White said. "It's hard to position advertising to the consumer's benefit. I just don't hear anybody saying anything great about why consumers should try them."

Mr. Freeman of Wells Fargo agreed that marketing has been spotty. "Until there is a critical mass [of users], how can you market it?" he asked. "It's like Visa and MasterCard in the late 1960s and early 1970s, when initial acceptance was low."

He said that in California, which leads the country in debit card usage, "advertising has been minimal and most of it has been done by retailers – gas stations, grocery and drug chains, lumber companies, and fast-food companies – who say accepting debit cards gives them a competitive advantage. "We have substantial volume, vis-a-vis two years ago."

Interlink, the point-of-sale payment network co-owned by Wells Fargo and the three other largest banks in California, does not disclose its transaction volume. The newsletter *Bank Network News* says that as of last fall, Interlink was handling 4 million electronic funds transfers a month, 35% more than in the fall of 1987.

"It's still going to be a slow-growth area," Mr. Freeman said. "Consumers aren't going to sit around and worry about whether cards are better than checks or cash."

Most consumers surveyed by Trans Data stated that either none of their financial service suppliers offer debit services, or they are unaware if the service is available.

A majority of 51% said their institutions do not offer a debit card, and 25% do not know. The remaining 25% (percentages are rounded and add up to more than 100) of the 985 financial institution customers in the nationwide survey said their institution offers a debit card.

The Electronic Funds Transfer Association, an Alexandria, Va., trade group, disputed these findings by citing interviews with 33 older consumers, who were selected for recent focus-group interviews. "Most people said they were willing to try it," said Anne Brown of the association.

But the *American Banker* survey finds that 88% of mature consumers – people 65 and older – say they are not interested in debit point-of-sale services. Of those between the ages of 55 and 64, 84% are not interested.

Entree Is Hobbled

The future of debit cards could be in the hands of MasterCard's and Visa's Entree program, which could set a national standard for debit transactions. But Entree may have gotten derailed by a lack of industry interest and by an antitrust lawsuit filed against it in July by the attorneys general of 12 states, who see Entree as the product of a conspiracy by MasterCard and Visa to maintain the dominance of credit cards.

"I think an Entree-like concept is absolutely necessary to solidify the industry," Mr. Freeman said. "Conceptually, it's hard for me to imagine the world without some national debit [service] mark in 5 to 10 years."

He said lack of national standards for debit cards is one barrier to their acceptance "because you can't communicate to the consumers" where and how to use the card.

Typically, young, well-educated, and wealthy consumers are the most likely to use debit cards.

The consumers most receptive to debit cards are between ages 18 and 24, 40% of whom say they would use such a card. The older a consumer, the less likely he or she is to use debit cards.

Among affluent consumers, 24% of those earning $75,000 or more said they would be interested in using a debit card. This compares with 21% of consumers earning $40,000 to $75,000; 19% of those earning $20,000 to $40,000; and 13% of those earning under $20,000.

Consumers holding graduate degrees are by far the most likely to use debit cards, with 29% saying they are interested. This compares with 20% for those with undergraduate degrees and only 14% of those with a high school education or less. ☐

[redacted]

Dear Reader, How Are We Doing?

The *American Banker* hopes you find value in our consumer survey and that the information will be useful in your work. To help us prepare future consumer surveys, would you please offer us some feedback on this one? Please return this questionnaire to Fred R. Bleakley, Editor, *American Banker,* One State Street Plaza, New York, NY 10004. Many thanks.

1. Overall, how informative is the 1989 consumer survey?

☐ Very informative
☐ Somewhat informative
☐ Not very informative
☐ Not at all informative

2. How useful is this survey to you?

☐ Very useful
☐ Somewhat useful
☐ Not very useful
☐ Not at all useful

3. How will you use the information from this survey at work?

4. What do you LIKE MOST about this survey?

5. What do you LIKE LEAST about this survey?

6. To help us decide which areas to study in future surveys, please rank your interest in each of the categories as follows: 3 = Extremely important, 2 = Fairly important, 1 = Not important.

___ Confidence in the banking system
___ Customer satisfaction with financial institutions
___ Lifeline banking and other policy issues
___ Saving/borrowing habits and attitudes
___ Check clearing/Regulation CC
___ One-stop financial shopping
___ How people choose banks
___ Direct sales of financial products
___ Telemarketing sales
___ Credit card marketing strategies
___ Debit card marketing strategies

7. What subjects or issues that are not in the 1989 consumer survey would you like covered in a future survey? What other changes would make the survey more useful?

To help us to better understand responses, please fill in the following information:

Name (optional) ____________
Title ____________
Company ____________
Address ____________
City ______ **State** ______ **Zip Code** ______

P.S. Thanks again very much for your help. If you would be willing to discuss your views about the survey with us, would you list your telephone number so that we might contact you?

Phone number ____________

[redacted]

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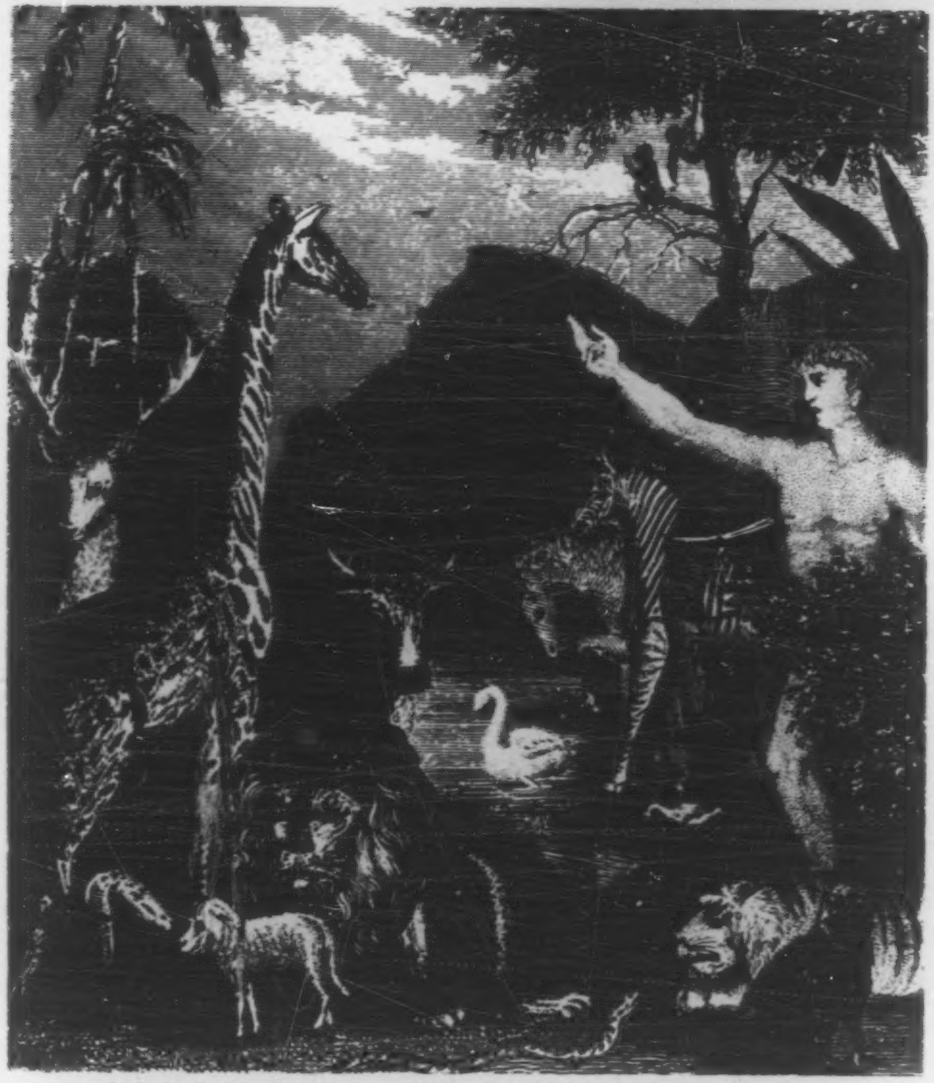

In the beginning, there were monthly banking publications. But soon there arose a great desire for something more timely. So the staff at American Banker said, "Let there be a weekly." And so it happened: Banking Week. And the industry saw that it was good.

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American Banker's Consumer Survey: The Questionnaire

General Industry

1. How healthy do you personally think the U.S. banking and financial system is at the present time?

a. Very healthy
b. Fairly healthy
c. Fairly unhealthy
d. Very unhealthy
e. Not sure

2. And how much confidence do you personally have in the safety and security of the U.S. banking and financial system today?

a. A great deal
b. Some
c. Very little
d. No confidence
e. Not sure

3. Compared to a few years ago, do you have more confidence now, less confidence now, or about the same amount of confidence in the U.S. banking and financial system?

a. More confidence now
b. Less confidence now
c. About the same amount
d. Not sure

4. Using a five point scale – where one means you have no confidence, two means little confidence, three means some confidence, four means your are confident, and five means a great deal of confidence – how much confidence do you have in the insurance fund backing your deposits?

a. None
b. Little
c. Some
d. Confident
e. Great deal
f. Don't know

5. Again on a five-point scale, where one means no importance and five means a great deal of importance, how important is it that your deposits are insured by the government?

a. None
b. Little
c. Some
d. Important
e. Great deal
f. Don't know

6. Let's say the only way to maintain the insurance on deposits was for consumers to pay. Would you be willing to pay 25 cents for every $100 you have in deposits? That would mean $5 a year for every $2,000 in deposits.

a. Yes
b. No
c. Don't know

7. Where would you keep your money if deposits were not insured?

a. Bank/thrift/credit union
b. At home
c. Mutual funds, securities
d. Other, specify
e. Don't know

8. Would you be interested in an account that was not insured but paid 1% more in interest?

a. Yes
b. No
c. Don't know

Financial Institution Usage

9. Do you or anyone in your household now maintain an account, including deposit accounts, loans and credit cards, with these institutions?

a. Commercial bank
b. Savings bank or savings and loan
c. Credit union
d. Finance company
e. Brokerage firm
f. Mutual or money market fund
g. Insurance company
h. Other, specify
i. None
j. Refused
k. Not sure

10. How many of these financial institutions do you and other members of your household use?

a. Commercial bank
b. Savings bank
c. Credit union

11. If you use more than one bank or thrift, have any of the banks you use ever tried to get you to put all of your accounts with them?

a. Yes
b. No
c. Don't know

12. If you use only one type of financial institution, which one type of the financial institutions you just named would you call your most important or principal financial institution?

a. Commercial bank
b. Savings bank or savings and loan
c. Credit union
d. Finance company
e. Brokerage firm
f. Mutual or money market fund
g. Insurance company
h. Other, specify
i. None
j. Refused
k. Not sure

13. Overall, how satisfied are you with your principal financial institution at the present time?

a. Very satisfied

b. Somewhat satisfied
c. Not satisfied
d. Not sure

14. And compared to a few years ago, are you more satisfied now with your principal financial institution, less satisfied now, or equally satisfied?

a. More satisfied now
b. Less satisfied now
c. Equally satisfied
d. Not sure

15. If you answered more satisfied, why?

a. Better service/more helpful/personal attention
b. Offering more/new services/programs/options
c. Better interest rates on deposits/more ways to earn interest
d. Personal situation improved/more personal knowledge
e. Banks more secure/better off financially
f. Lower interest rates on loans
g. More convenient location:/ATMs/hours
h. More efficient/fewer mistakes
i. Changed institutions
j. Loans easier to get
k. Other
l. No reason
m. Don't know

16. If you answered less satisfied, why?

a. Poor attitude/poor service
b. Rates too low on deposits
c. More fees/too many service charges
d. Rates too high on loans
e. More mistakes/too many errors
f. Merged/bought by another institution
g. Offers fewer service
h. Less stable/untrustworthy
i. Changed institutions
j. Loans too hard to get
k. Less convenient locations/hours/ATMs
l. Automation problems/ATMs down/computers broken
m. Other
n. No reason
o. Don't know

17. About how long has your primary financial institution been your main or most important financial institution?

a. Up to 1 year
b. Longer than 1, up to 3 years
c. Longer than 3, up to 5 years
d. Longer than 5, up to 10 years
e. 10 years or longer
f. Don't know

18. People consider a number of factors in deciding where to bank. On a scale from one to five, where one means no importance and five means a great deal of importance, how important are these factors when you select a financial institution?

a. Branch location
b. Interest rates on deposits
c. Branch hours
d. The availability of automated teller machines
e. Account fees
f. Gifts for opening new accounts

19. If you changed where you bank today, which factor would be most important in selecting a new financial institution?

a. Branch location
b. Interest rates on deposits
c. Branch hours
d. Availability of ATMs
e. Account fees
f. Gifts for opening accounts
g. Other
h. Don't know

20. Do you or other members of your household have any CDs?

a. Yes
b. No
c. Don't know

21. Where did you obtain your CDs?

a. Bank
b. Thrift
c. Credit union
d. Other
e. Don't know

22. And does your household have any mortgage loans? This would include first mortgages, second mortgages, and home equity lines of credit.

a. Yes
b. No
c. Don't know

23. At what type of financial institution do you have these mortgages?

a. Bank
b. Thrift
c. Credit union
d. Mortgage company
e. Other
f. Don't know

24. And do you or other members of your household have any car loans?

a. Yes
b. No
c. Don't know

25. At what type of financial institutions do you have these loans?

a. Bank
b. Thrift
c. Credit union
d. Finance company
e. Dealer
f. Leasing company
g. Other, specify
h. Don't know

26. If you do not use any financial institution, have you ever used any of these institutions?

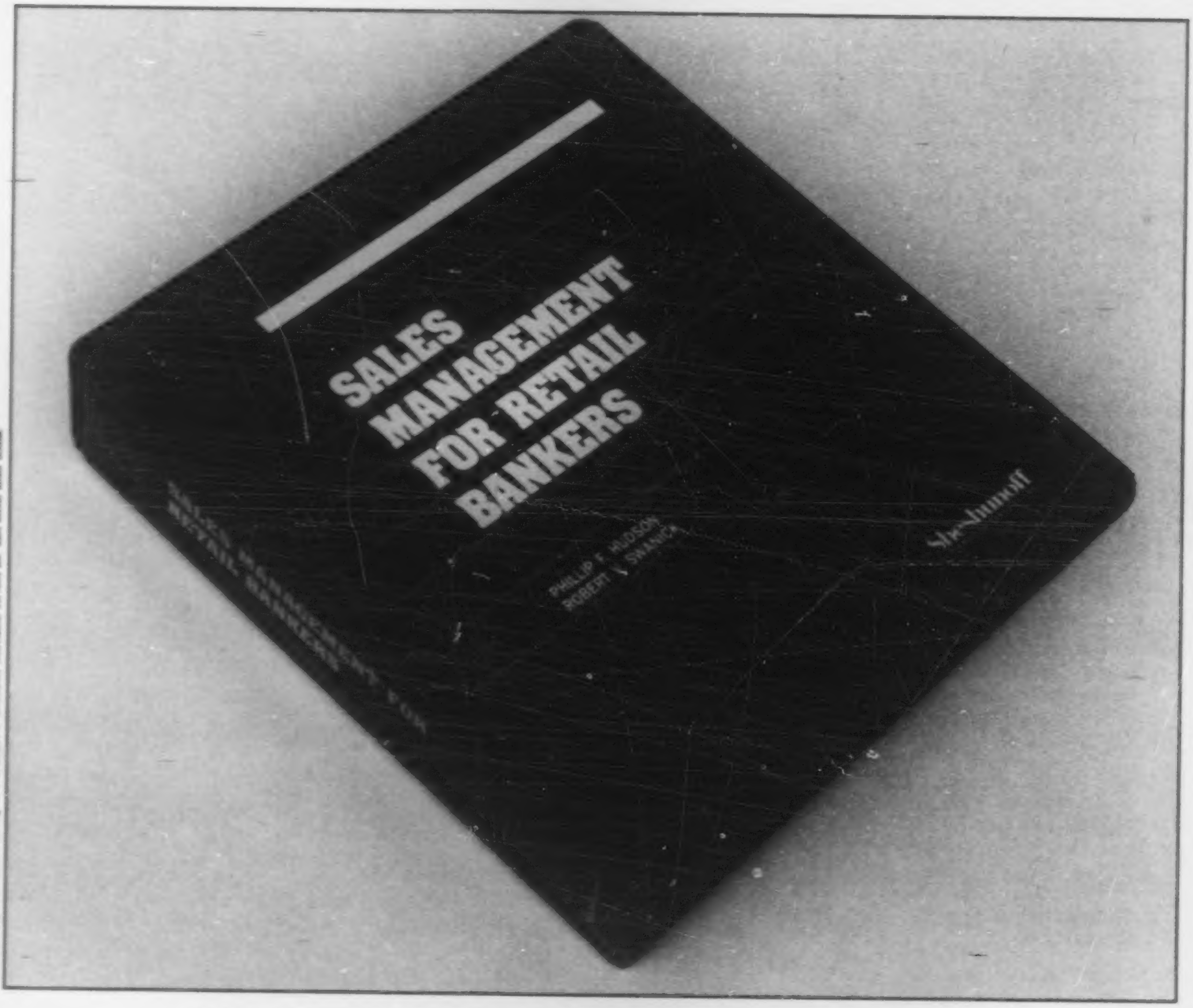
a. Yes
b. No
c. Don't know

27. If you do not have any accounts at any of these institutions could you tell me how you pay your monthly bills?

a. Cash
b. Money order
c. Employer deduction
d. Other, specify
e. Don't know

28. Why is it that you don't use any financial institutions?

a. Can't afford to
b. Don't think it's safe/don't trust them
c. Don't want to pay any fees
d. Don't need them
e. Other, specify
f. Don't know



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Service Quality

29. On the whole, how would you characterize the quality of service delivered by your principal financial institution?

a. Really does a great job for me
b. Gives me good service
c. Gives me OK service
d. Gives me poor service
e. Frustrates me to no end
f. Don't know

30. Please rate the service of your primary financial institution. Using a five point scale, where one means poor and five means excellent, how would you rate these things at your main financial institution?

a. Courtesy of staff
b. Convenience
c. Accuracy of statements
d. Speed of service
e. Way complaints or problems are handled

31. Have you ever closed an account or changed financial institutions because of a service problem?

a. Yes
b. No
c. Don't know

Check Clearing

32. Say you deposited a check in your account with your main financial institution on a Monday. On what day would you expect to be able to withdraw that money?

a. Monday, same day
b. Tuesday
c. Wednesday
d. Thursday
e. Friday
f. The following week
g. Don't know

33. Is that quick enough?

a. Yes
b. No
c. Don't know

34. Compared to 2 years ago, would you say that today it is quicker, slower, or the same time you would have to wait to withdraw the money from a check deposited on a Monday?

a. Quicker
b. Slower
c. Same
d. Don't know

35. Does your main financial institution have a formal policy on how long you have to wait after depositing a check until you can withdraw the money?

a. Yes
b. No
c. Don't know

36. Have you ever had a problem with the wait?

a. Yes
b. No
c. Don't know

Credit Cards

37. Do you or other members of your household have a Visa credit card? Do you have a MasterCard?

a. Visa only
b. MasterCard only
c. Neither
d. Don't know

38. If you have these cards, what type of institution issued them?

a. Bank
b. Thrift
c. Credit union
d. Other
e. Don't know

39. Do any of your cards offer you any of the following benefits?

a. Discounted life insurance
b. Travel services
c. Credit card registration
d. Rebates on purchases
e. Airline frequent flier points
f. Any other special benefits? Specify.
g. None
h. Don't know

40. If you receive benefits, do you value any of them?

a. Yes
b. No
c. Don't know

41. If you receive benefits, which ones have you used?

a. Discounted life insurance
b. Travel services
c. Credit card registration
d. Rebates on purchases
e. Airline frequent flier points
f. Other, specify
g. None
h. Don't know

42. If you have more than one Visa or MasterCard, do you use one card more often because of the benefits you mentioned?

a. Yes
b. No
c. Only have one card
d. Don't know

43. Which would you prefer a credit card with benefits or a card with no benefits that has a lower interest rate or annual fee?

a. Card with benefits
b. Card with lower rates/fees
c. Don't know

Debit POS

44. A new service lets you pay for purchases with a card, which deducts the amount of the purchase from your checking or savings account automatically. This type of card is not a credit card because the money comes directly out of your account. Does your financial institution offer a card of this type?

a. Yes
b. No
c. Don't know

45. Would you be interested in using such a card for purchases?

a. Yes
b. No
c. Currently have
d. Don't know

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Sales

46. Has anyone from your primary financial institution ever called you by telephone at home or at work?

a. Yes
b. No
c. Don't know

47. What was the purpose of these calls?

a. Sales effort
b. Give information
c. Returned my call
d. To tell me about/resolve a problem
e. Other, specify
f. Don't know

48. Were these calls helpful?

a. Yes
b. No
c. Don't know

49. Have you ever opened any accounts in response to any of these calls?

a. Yes
b. No
c. Don't know

50. When you actually go into the branch, has an employee at a branch of your principal financial institution ever tried to sell you a financial product or service?

a. Yes
b. No
c. Never go to branch
d. Don't know

51. If you answered yes, did you find that attempt helpful, unhelpful, or offensive?

a. Helpful
b. Unhelpful
c. Offensive
d. Don't know

52. Did you ever buy any product or service as a result of such a sales effort in the branch?

a. Yes
b. No
c. Don't know

Savings & Borrowing

53. Compared to 3 years ago, would you say your household saves more today, saves less today, or saves about the same?

a. More
b. Less
c. Same
d. Don't save
e. Don't know

54. And would you say your household borrows more today, borrows less today, or borrows about the same as 3 years ago?

a. More
b. Less
c. Same
d. Don't borrow
e. Don't know

55. And is the amount your household owes on all of its credit cards more today, less today, or about the same as 3 years ago?

a. More
b. Less
c. Same
d. Don't use credit cards
e. Don't know

56. Would you like your bank to provide an account specifically to help you save for a down payment on a house? How about to help you save for your children's college education?

a. Save for a house
b. Save for education
c. Both
d. Neither
e. Don't know

57. Would you be interested in a savings plan that automatically took out of your pay an amount of money you decide on and put that money in an account for you?

a. Yes
b. No
c. Currently have such a plan
d. Don't know

Public Service

58. Do you think everyone is entitled to basic banking services such as a low cost checking or savings account, even if they can't afford to pay for them?

a. Yes
b. No
c. Don't know

59. Should the government require banks to provide free or low cost services, even if the bank loses money doing so?

a. Yes
b. No
c. Don't know

60. Should banks be required to lend locally, even if such loans aren't profitable?

a. Yes
b. No
c. Don't know

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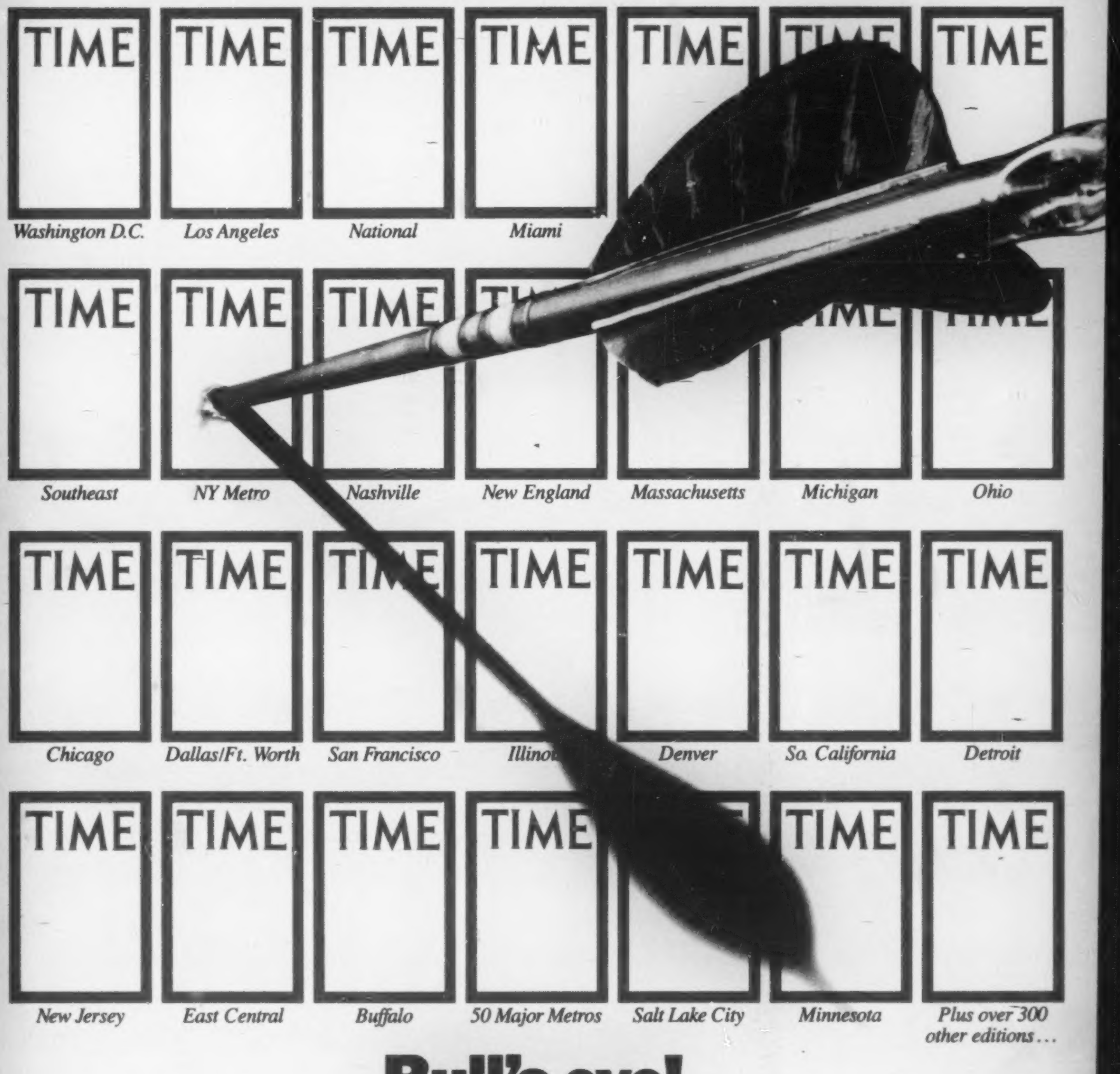
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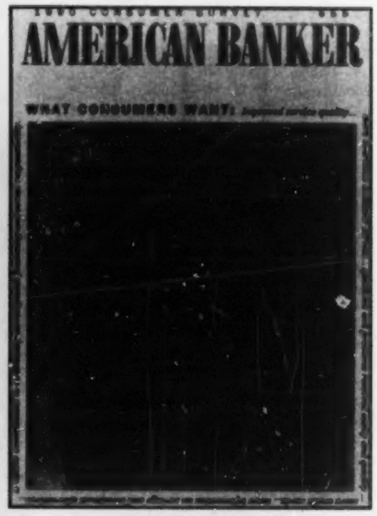

On the desktop of a prominent banking executive sits a paperweight bearing an inscription: "The customer is always right. And if the customer is ever wrong, read rule #1."

On the surface, providing customer service in the banking industry may seem just that simple. But nowadays, under relentless pressure to consolidate, slice costs, and satisfy changing consumer demands, quality service often proves an elusive goal that banks achieve with varying degrees of success.

The industry's mixed record on that count is underscored by American Banker's seventh annual consumer survey. The telephone poll, which sounded out the responses of 1,024 adults, was conducted in May by Trans Data Corp., a Wayne, Pa.-based affiliate of the American Banker newspaper. It compiled responses to questions on the industry's overall health; emerging products and services; and trends in savings, borrowing, and marketing.

An overview of the results begins on page 8. Following it is a series of articles pegged to individual survey items, which include interpretations of the findings by bankers, analysts, and other industry watchers. A new feature this year is a scorecard of consumer choices, which begins on page 14.

The architect of the survey was Jeffrey Kutler, the newspaper's assistant managing editor. The report was coordinated by the American Banker features staff: Patricia Stundza, Joseph L. McCarthy, and Beth Piskora. Art director Pamela Budz designed the cover, and Dylan Kreuzer and Carl Zeichner the charts. Jane Sandiford handled the copy editing.

American Banker provides the consumer survey in an attempt to help its readers identify and respond to marketplace needs. We hope the effort proves worthwhile.

Sincerely,

Thomas J Ferris

Thomas J. Ferris
Managing Editor

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How the Survey Was Conducted

The articles in this publication report and analyze the results of the *American Banker*'s seventh annual survey of consumer attitudes and opinions on issues of interest to the financial services industry.

The 1990 survey is based on 1,024 telephone interviews, conducted in May, with a randomly selected cross-section of the population in the continental United States. Each telephone-owning household had a theoretical chance of being selected to be in the representative sample.

Trans Data Corp., a Wayne, Pa.-based research affiliate of the *American Banker*, developed the survey questionnaire in collaboration with the newspaper's senior editors and staff writers. Trans Data representatives performed the interviews with adult heads or coheads of household, each taking 20 to 30 minutes. The Trans Data staff also assisted in a preliminary analysis of the results.

The statistical reliability of the results varies according to the number of responses to a particular question. For a question in which half of all 1,024 participants give the same response, there is a 95% probability that the actual response by the total population would be between 47% and 53%.

In other words, the sampling error at the 95% confidence level is plus or minus three percentage points.

The three-point margin of error applies to questions answered by all 1,024 in the sample. Subgroups that consist of smaller sample sizes have greater margins of error.

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Basic Service Is Key to Winning Consumer's Loyalty

By Jeffrey Kutler

FOLLOWING THE ABCs OF GOOD BUSINESS AND SHOWING CONCERN FOR COMMUNITY WILL GO A LONG WAY

The keys to success in retail financial services are simple, few, and often neglected by financial institutions, the *American Banker*'s annual consumer survey indicates.

Based on responses to the national poll, the prescriptions for attracting and keeping a loyal and profitable corps of retail customers would read much like those in a general business textbook: Stay close to the customer, stick to the basics, provide useful innovations, and ensure quality.

If banks also addressed consumers' misgivings about the state of the banking industry and added a dose of community responsibility, much of the public would feel satisfied and well served by their banks, thrifts, and credit unions.

Image Problem

Of course, the theories of customer service and satisfaction are much easier to discuss than to implement, particularly in large, complex, branch-banking organizations that suffer high rates of employee turnover. But the survey suggests that there are clear, untapped opportunities for institutions that find the proper mix of efficiency and attention to personal financial needs and desires.

"To me, no major bank in the United States has created the true, service quality image and brand identity of an American Express Co.," said Allen DeCotiis, who tracks consumer financial behavior and preferences as president of PSI, a research firm in Tampa, Fla. "American Express backs that image with execution of an excellent customer-service strategy, but its success is as much its image as execution.

"The challenge for banks is to become perceived as quality service providers. Even those trying to approach it still have a long way to go."

The *American Banker* survey of a cross section of consumer America showed that despite growing awareness and criticism of the savings and loan scandals, most of the public remains relatively satisfied with the level of service they receive from their depository institutions.

But the telephone survey of 1,024 adults, conducted in May by Trans Data Corp., the newspaper's Wayne, Pa., research affiliate, also found that there is plenty of room for improvement in service quality – what Mr. DeCotiis called the "perception problem."

And it revealed some latent concerns about structural changes in the banking industry that are creating larger banks whose managements may be losing touch with the communities they serve. Although there has been no widespread consumer backlash against the growing size of institutions through consolidation, there is a palpable demand for bankers to pay close attention to local and individual needs. This might include acting as the proverbial pillar of the community or showing a strong commitment to the Community Reinvestment Act of 1977.

Hunger for 'Community'

"The community bank strategy is the best strategy, no matter where you are," Mr. DeCotiis said. "The big challenge is execution."

Perhaps because of growing fears about size and depersonalization, the idea of community struck a responsive chord with the 1990 survey group. Asked if they preferred to bank at a large institution or "a local or community institution," 68% chose the latter, 23% preferred a large company, and 9% were indifferent.

The split was wider among residents of small towns and rural areas, where independent, community banks have their roots: 78% preferred local banks, 15% large banks, and 7% stated no preference.

A Goal for Big Banks

Half the respondents said they "do not feel as confident in the U.S. banking system in light of recent mergers," far outnumbering the 22% who disagreed with that proposition. The remaining 28% were neutral or undecided.

As the Independent Bankers Association of America likes to assert on behalf of its 7,000 members, traditional community banks epitomize the notion of staying close to the customer. Larger, acquiring banks have set out to emulate that ideal.

"We've been involved in a number of community bank mergers, and every time we found they could deliver better quality locally than we could from headquarters," said John Allison, chairman and chief executive officer of BB&T Financial Corp., Wilson, N.C.

That $5 billion-asset company has grown rapidly through what Mr. Allison calls a "philosophical and structural" commitment to quality service at the local level. Over the last 10 years, its Branch Banking and Trust Co. more than doubled its share of North Carolina deposits to 7.1%

"Our system relies on presidents serving compact areas that they know well."

JOHN ALLISON
Chairman, chief executive officer
BB&T Financial Corp.

"As a midsize bank, we run the risk of getting too big with too much structure," Mr. Allison said. Accordingly, BB&T has decentralized decision-making among 10 groups – called community banks – each with a president responsible for lending, recruitment, and other key decisions. The regional banks draw on such central resources as data processing and must buy into BB&T's rigorous strategy for delivering a high level of service to individuals and predominantly small to midsize companies.

"Our system relies on presidents serving compact areas that they know well, and our feedback system rewards them for quality, profitability, and growth," Mr. Allison said. "We don't micromanage."

"The evolution of banking demands" decentralization, said William Randle, senior vice president and director of corporate marketing at Huntington Banchares, Columbus, Ohio. A multistate company with $12 billion in assets, Huntington has reorganized its Ohio bank into four relatively autonomous groups centered in Cincinnati, Cleveland, Columbus, and Toledo, each responsible for local service delivery and marketing plans.

"Over the last 10 to 20 years we have gone from single-city unit banks to holding companies embracing multiple banks in a state, to holding companies expanding across state lines," said Mr. Randle, who witnessed many of these changes while working for First Union Corp., the Charlotte, N.C., superregional, in the 1980s.

Such growing companies "tried to do the same things they had always done, and better, across state lines, but that late-1970s, early-1980s model doesn't work today," he said. "Management across four to five states, programmed centrally, doesn't work. People are attuned to service at the local level. We have to flatten our organizations, move from hierarchy to decentralization, to respond more quickly and closely to customer needs."

Defining Quality

Once structured to meet customer needs, banks must know what those needs are. According to the *American Banker* survey, consumers are crying out for quality. They also seem eminently fair in assessing the current level of service.

In line with the fact that 61% are "very satisfied" with their principal bank, thrift, or credit union – unchanged from 1989 but down from 66% in 1988 – 69% said the general level of quality from that institution was good or great this year. Only 2% said the quality was poor, and a similar number said they were "frustrated to no end."

Indexing all the quality responses on a scale of 1 to 5, with 5 the best score, the overall average was 3.82. It was highest among senior citizens: 76% said quality was good or great, and the rating was 4.01.

Mr. DeCotiis said defining and meeting quality objectives – avoiding problems and easily resolving those that arise – are essential to any financial institution's quest for competitive advantage.

"People expect, if not perfection, accuracy in transactions, responsiveness, and the ability to do the things they want to do, when they find it convenient to do them," said Russell Browne Jr., first vice president and director of marketing at NBD Bancorp. The $27 billion-asset parent of NBD Bank, Detroit, has spent several years studying quality issues and recently established a service quality support group.

"Getting staff people to smile – what I call fuzzy-wuzzy programs – is unwarranted," Mr. Browne said. "People want basic courtesy, to be treated as rational human beings who are valued. We are finding that getting that across in our branches and communities is extremely difficult."

"For us, it all starts with the way we treat our employees, because it is their commitment and attitude that gets the message across to customers," said Mr. Allison of BB&T. "Treat [employees] well, and that, above all else, will improve your service to customers.

"A lot of people focus on developing the full product line, a system of clean and convenient branches, etc., but as important as these are, they are not at the top of the list of what customers are looking for, quality-wise," Mr. Allison said.

His company set four other specifications for meeting customer needs, which it uses in measuring management and individual performance: reliability of banking services and information, empathy in treatment of customers, responsiveness to questions and problems, and assurance.

The last point includes knowledgeability of staff and, "in today's environment, the safety and soundness of the institution itself," said Mr. Allison.

Providing Community Aid

The survey indicated that most consumers do not view the savings and loan crisis as having a direct impact on their own institutions – even if those institutions happen to be thrifts. But bankers like Mr. Allison must be concerned that 35% of the public view the banking and financial system as unhealthy. That figure rose five percentage points this year to the highest level in the seven years of the *American Banker* poll.

> *"The challenge for banks is to become perceived as quality service providers."*
>
> **ALLEN DeCOTIIS**
> *President*
> *PSI*

Consumers may view the industry as battered, but they do not let if off the hook with regard to serving the needy and aiding in community development. A sizable minority of consumers say compliance with the Community Reinvestment Act will influence how they view their financial institutions. The institutions are now required to disclose regulators' assessments of how they comply with the CRA, which prohibits the discriminatory lending policy known as redlining.

One in three said they would switch their primary financial institution if it failed to comply with the CRA. Among nonwhites, who would be expected to be most sensitive to discrimination, the proportion making this threat was 50%.

"CRA is going to be a very big issue," said Michael Sullivan, president of Michael P. Sullivan Associates, a Charlotte, N.C., consulting firm that advises bankers on how to address such public concerns. "Bankers will have to deal directly with community groups, form advisory panels, maybe hire ethnic advertising specialists to help get their message across in a positive way to the right people."

After a recent survey of public officials and opinion leaders in Michigan, NBD concluded that "consumers are not expecting us to do dumb things from a business point of view," Mr. Browne said. "They want us to be sound banks, with a commitment to affordable housing and financing community development activities."

NBD views that as reasonable – and as a potential boon. "We are focused not on whether this is an issue of black or white, rich or poor, but what are the needs of the communities being served," Mr. Browne added. "CRA has an educational dimension – such as helping new homeowners learn their mortgage options – that helps us develop bankable business while generating loans that help the community and economy."

Other Opportunities

Aside from community-based strategies that include attention to the disadvantaged, marketing experts see several other opportunities in the *American Banker* data and other research. These include:

- **Target marketing**. Also known as market segmentation, identifying small customer groups for specifically tailored sales solicitations is old hat in bank marketing circles. But some emerging groups may not get the attention they deserve.

Hispanics, Asians, and new immigrants from Eastern Europe all are

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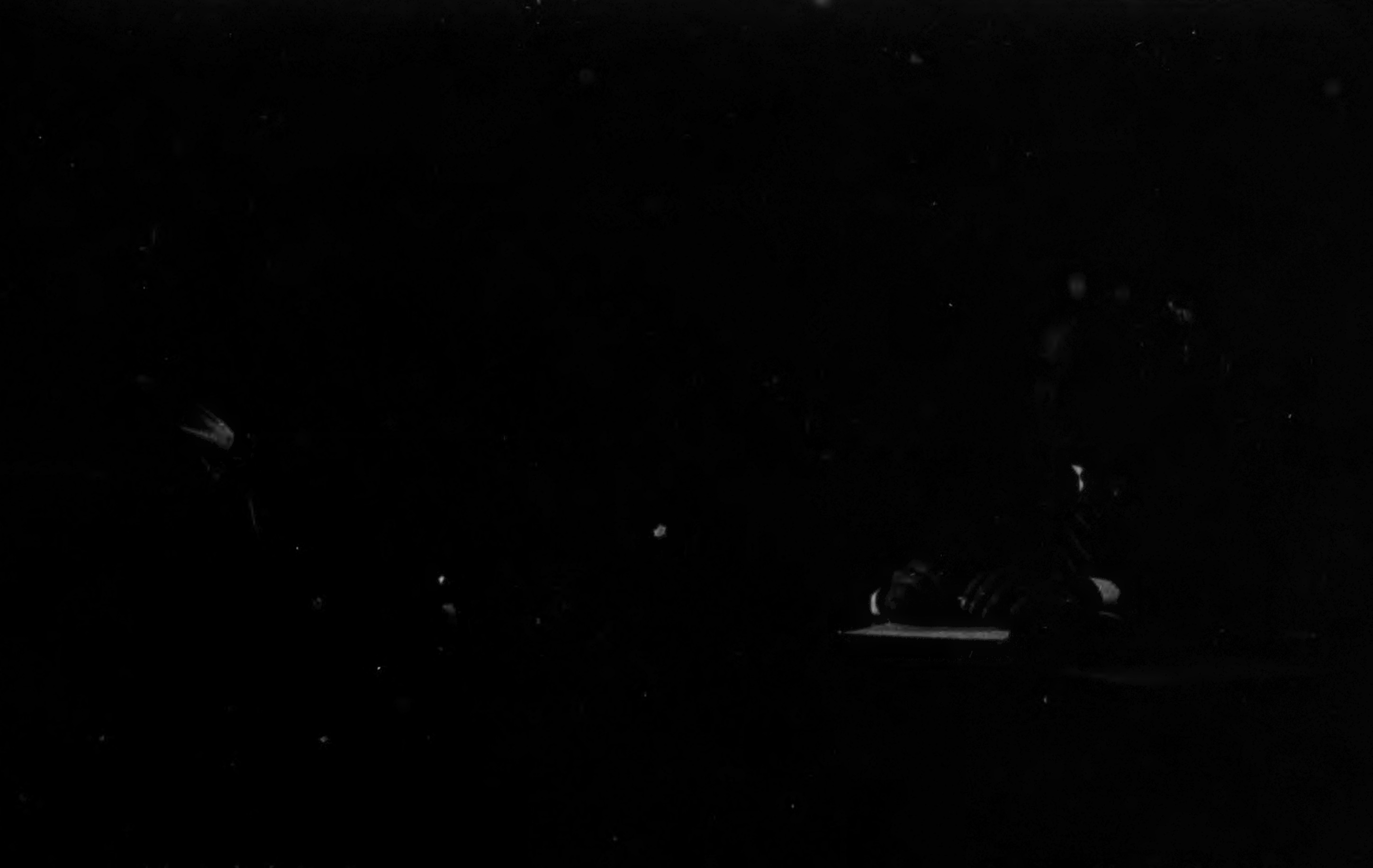

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> *"We have to flatten our organizations, move from hierarchy to decentralization, to respond more quickly and closely to customer needs."*
>
> **WILLIAM RANDLE**
> *Director of corporate marketing*
> *Huntington Bancshares*

worthy of attention in certain regions. "One recent study I saw showed that of all the ethnic groupings, the one with the highest household income is Korean-Americans," said Mr. Sullivan. "Those households typically have two incomes, at least, but they are surprisingly affluent."

Les Dinkin of Les Dinkin & Associates, Westport, Conn., said banks could do better in their approach to the vast population of baby boomers, now moving into middle age. "Chemical Bank in New York has a standard checking product called ChemPlus, and variations of it for students, young professionals, and wealthier people with the most profitable accounts," he said. "Few institutions are able to adjust their offering as customer needs change."

Mr. Dinkin also suggested the ultimate in segmentation: products designed for one customer. "You can extend the old Christmas Club idea, letting people establish accounts in their name for a specific purpose like vacation savings or home improvement," he said. "The technology exists to handle automatic payments into those accounts, so even though you are creating more accounts, they are extremely efficient and enhance customer relationships with a disciplined savings plan."

• **Branch Warfare**. Rather than viewing branch systems as cost drains, banks should consider them assets in developing competitive retail strategies, according to Richard Strand, a 30-year veteran of financial services who is now working for John Ryan Co., a Minneapolis firm that assists in branch-related marketing programs.

"In uncertain times, consumers will benefit from more hand-holding on financial matters, and that presents a great opportunity for bank branches," Mr. Strand said. "Given the tremendous customer traffic, the volume of data banks have on customers, and consumers' trust in their banks, the branch can be used to communicate an institution's commitment to meet their needs."

He added that although it is important to have staff who relate to the public, branch-based strategies are not entirely dependent on people. "A marketing orientation also involves signage, written materials, and gearing the total environment of the branch to communicating that the bank is providing comprehensive range of products and services," he said. "It works with customers on a true relationship basis, as opposed to just a transaction basis."

• **Resilient Plastic**. Contrary to many bankers' assumptions, credit card issuers have not saturated the potential market. Consumers are still taking on cards, typified by their rapid acceptance of the AT&T Universal card.

"Any real decline in the credit card market is still 10 to 12 years away," said Allen DeCotiis of PSI, who correlates demand for credit with demographic trends. He said growth is sure to continue for five years, but profit margins will get tighter. The aging of the baby-boom generation, with a smaller generation moving into its place in the high-spending years, will lead to a much greater demand for savings and investment products in the next century.

"If you don't look long term and have savings relationships established by 2000, you're doomed," Mr. DeCotiis said. But short term, credit cards remain a good business.

"Smaller banks can even do well in credit cards, because of the relationship aspect of their business," he added. "They have knowledge and hands-on understanding of their customers."

BayBanks Inc., a Boston-based regional company, latched on to that idea in a recent marketing appeal. "A bank with a local branch network and a complementary automated teller machine network affords the convenience that most consumers value," said James M. Cosman, executive vice president of BayBanks Credit Corp. "And face-to-face contact with a banker may be important to consumers should credit card issues arise." □

Service/Satisfaction

As concerns about the industry's health multiply and consumers are asked to pick up a multi-billion dollar tab for the thrift fiasco, satisfaction with individual institutions remains surprisingly strong.

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Thrift Customers Turning Their Backs On Troubled Industry

By *Jeffrey Marshall*

THRIFTS' SHARE OF CD, MORTGAGE MARTS SHOWS A DECLINE FROM PREVIOUS YEAR

The savings and loan industry, battered at virtually every turn, is also losing in the court of customer loyalty, the 1990 *American Banker* consumer survey shows.

The proportion of people who have at least one account with a savings institution stood at 49% this year, down a substantial seven percentage points from a year earlier. The number designating a thrift as their principal financial institution fell a more modest three points to 21%.

Even more telling, the percentage of mortgage borrowers identifying thrifts as their lenders plunged to 12% from 28% last year. The drop may have been exaggerated by consumer outrage at the thrift crisis, but other studies have confirmed that thrifts have lost their edge over banks and others in the home loan business, which was their original reason for being. (See related article on page 17.)

Meanwhile, thrifts' share of certificates of deposit dipped to 21% from 24%.

The market share data are based on customer responses to a telephone survey conducted last May by Trans Data Corp., the Wayne, Pa., research affiliate of the *American Banker*. For the newspaper's seventh annual consumer poll, Trans Data questioned 1,024 randomly chosen adults in the continental United States.

The survey showed that while customers of all three types of depository institutions – banks, thrifts, and credit unions – are growing increasingly wary of the health of the financial services industry, thrifts are the only ones suffering net customer defections.

The data do not show that exclusive users of thrifts have become exclusive users of commercial banks or credit unions. Thus, customers who closed accounts at thrifts did not necessarily turn up in the data as having opened an account at a bank or credit union, because they may already have had an account at one or both of these categories of institutions.

Commercial banks held steady this year, with 56% of consumers calling a bank their principal institution and

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Mr. Marshall is managing editor of Banking Week.

credit unions gained a percentage point to 14%.

There was a smattering of mostly wealthy people who rely primarily on securities firms or mutual fund companies, and 2% of respondents named no principal financial relationship.

The numbers suggest that the thrift industry's hard times could bode well for competitors. But many banks are hamstrung by diminished asset quality and are not in shape to chase after new customers.

Falloff Not So Sharp

The survey findings hinted at thrifts' potential problems. Consumers who said they got loans from mortgage companies – which could be owned by a bank or a nonbank – jumped to 42% from 23% last year.

Some observers found such drastic changes perplexing. In actuality, the thrifts' market share did not plunge so sharply. Observers speculated that borrowers are more aware than ever of who holds their mortgages and might be identifying nonthrift mortgage servicers even if thrifts originally made the loans.

But even if exaggerated, the thrift falloff shown in the survey reflects a real decline. Hundreds of savings and loans have been seized by the government, and stiffer capital requirements and earnings troubles have forced many of the survivors to scale back their product offerings, including mortgages.

Banks Maintain Lead

Thrifts, however, remain a major player in the origination business, mortgage industry experts say. Stuart Feldstein, president of SMR Research in Budd Lake, N.J., cites first-quarter 1990 origination data from the U.S. Department of Housing and Urban Development showing that S&Ls and mutual savings banks have 32% of the origination market. Banks originated 37%, and mortgage companies 30%.

A Scorecard of Consumer Choices

	Total users*	Designated as principal institution	Average number of institutions used	Source of products		
				CDs	Mortgages	Auto loans
Commercial banks	88%	56%	1.8	71%	40%	48%
Savings institutions	49	21	1.4	21	12	4
Credit unions	40	15	1.2	8	5	20
Finance companies	21	<1	—	—	—	19
Brokerage firms	17	1	—	—	—	—
Mutual funds	31	1	—	—	—	—
Insurance companies	14	—	—	—	—	—
Mortgage companies	—	—	—	—	42	—
Car dealers	—	—	—	—	—	13
None	—	2	—	—	—	—

*Includes multiple responses

Source: American Banker 1990 Consumer Survey

Banks can take satisfaction from their continuing hold on a majority of the public, including the older and wealthier groups that marketers find most desirable and profitable. Fully 95% of those with household incomes above $75,000 a year use a bank. Ranking second among intermediaries chosen by those in this top-income category were mutual funds, garnering 66%.

While the usage rate at banks – the percentage of customers using at least one service – ranges from 84% to 91% in all age groups, the thrifts' penetration is greatest among the youngest group, ages 18 to 24 (56%). Credit unions, too, were most popular with the young set and fared poorest among those 65 and older (18%).

The apparent extent of credit union penetration among young users was questioned by Bill Hampel, chief economist for the Credit Union National Association, a trade group based in Madison, Wis. The association's data show that relatively few in the youngest group use credit unions, Mr. Hampel said.

"Credit unions are still occupationally based," he said. "We find that the longer people are in the workplace, the more likely they are to be with a credit union."

Finance companies fared best among people 25 to 34, with auto loans far and away their most popular product. Mortgage companies did best with 35- to 44-year-olds, in the prime home-buying age, and worst with those over 65.

Addressing this last finding, Mr. Feldstein said: "What you're probably seeing here is that older people are more aware of where their mortgage actually resides. It could also reflect that the mortgage banking industry grew tremendously in the 1980s, as opposed to prior decades. Older people would tend to have fewer mortgages with them as a result."

Young Take More Risks

Divided by geographic area, banks show a more even distribution of usage than any other intermediaries, scoring 86% to 89%. Banks also top the list of the institutions used most by the best-educated consumers, with 94% of those holding graduate degrees. In contrast, just 10% of this group used a finance company in 1990.

Those responding to the poll may be listening to financial advisers, who often preach that younger people

"The longer people are in the workplace, the more likely they are to be with a credit union."

BILL HAMPEL
Chief economist
Credit Union National Association

should consider riskier investments than consumers near or above retirement age.

The survey found that certificates of deposit – generally considered a conservative, stable investment – are least popular among bank customers aged 35 to 44 and most attractive to those over 65. Thrifts picked up their greatest share among retirees as well, though their penetration of the youngest age group is minute – just 4% – well below the 15% recorded by credit unions.

But credit unions apparently are scoring well with consumers in western states, where they managed to attract 18% of CD buyers, 10 points higher than the national average for credit unions.

"Credit unions have always been strong in California," said Larry Kurmel, executive director of the California Bankers Association.

Credit unions scored highest in the survey among the youngest, least affluent CD buyers, but worst among those over 55 and those earning under $20,000.

Competition in the West

Banks would seem to have their hands full with mortgage competitors in the West, where their penetration (24%) is less than half that in the Northeast and North Central regions, both at 50%. Aggressive mortgage companies in the West have staked out a 56% share, the survey found, double their share in the Northeast.

But the numbers may be misleading because many mortgage companies are bank subsidiaries, Mr. Kurmel noted. He added that a recent survey by researchers at the University of California at Berkeley found that banks' share of the residential mortgage origination market in California has been steadily climbing and is above 54%.

While thrift mortgage loans were spread very evenly in various environments, banks garnered their biggest share, 46%, among rural dwellers and their smallest penetration, 34%, in cities. Mortgage companies were strongest in the suburbs (47%) and weakest in rural areas (33%).

Mortgage companies and credit unions scored higher among nonwhite borrowers than among whites, but the differences were relatively small. Mortgage companies were used most by the poorest and youngest groups and least by the oldest, wealthiest consumers.

Where Banks Do Best

As with mortgages, banks do best among auto buyers in the Northeast (56%) and worst in the West (34%). The reverse is true with credit unions, which score far higher in the West (30%) than in the Northeast (9%). Thrifts, with just a 4% market share, scored much better in the Northeast (7%) than in the West (1%).

Mr. Kurmel expressed surprise at the credit union share reported in the West. It is increasing, he said, but he still sees credit unions as relatively minor competitors, compared with the financing arms of the major auto companies. Finance companies and dealers held a 36% share in the West, higher than in any other region and almost double their nationwide average.

Credit unions are indeed stronger in the West, where they tend to be newer and larger than those elsewhere, said Mr. Hampel of CUNA. "Since the range of service offerings tends to be larger with size, those in the West tend to offer more services," he said.

While banks' loans to auto buyers peak in the 45-to-54 age group, credit unions do far better with the youngest group (32%) than those over 65 (5%). Finance companies do best in the highest age bracket (38%) and worst in the youngest (10%).

Finance companies also made many more car loans to nonwhites (40%) than to whites (16%). By contrast, banks and auto dealers had the greatest percentages of white borrowers. □

New Players Vie for Mortgages

Banks, Others Fill Void Left by Battered S&Ls

By Stephen Kleege

The 1990 *American Banker* consumer survey reinforces previous indications of upheaval in the mortgage business.

Last year, banks wrested the edge in market share from thrifts for the first time, according to reports by the Department of Housing and Urban Development.

And in the *American Banker* data, the percentage of borrowers identifying mortgage companies as their lenders has nearly doubled from a year ago, while the percentage identifying thrifts fell to 12% from 28%.

The explanation is that there are fewer thrifts than before, and the remaining ones are cutting back on new loans to improve capital ratios.

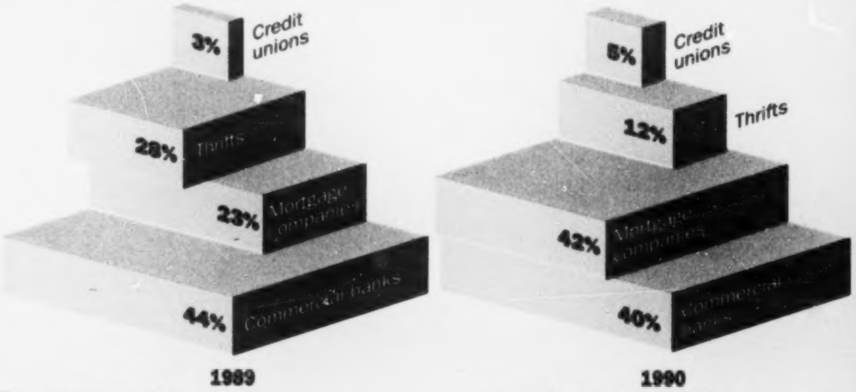
"When [savings and loans] stopped offering teaser rates, it was a very big help," said Terrance G. Hodel, president of Imco Realty Services, a mortgage company in Santa Rosa, Calif. His company's annual originations have jumped to $4 billion from $3.4 billion last year and $1.5 billion two years ago.

Teaser rates – the low introductory rates that embattled thrifts were offering to attract borrowers in the 1980s – exacerbated the problems that led to the 1989 bailout bill, and thrifts eventually had to rein in their lending.

But thrifts' shrinking market share tells only part of the story. The Office of Thrift Supervision has said that the size of the industry in February 1990 had declined to 2,860 institutions, down 120 institutions from the previous year. The industry closed $8.6 billion of mortgages on one- to four-family homes last February, the OTS said. It was one of the slowest months for mortgage lending, off by about $500 million from February 1989.

Thrifts Lose Their Home Ground

The percentage of mortgage borrowers identifying mortgage companies as their lender almost doubled in 1990



Percentages rounded

Source: American Banker 1990 Consumer Survey

Americans take out $350 billion to $380 billion in mortgages a year, off from a peak of about $450 billion in 1987 and 1988, when many borrowers were refinancing high-rate loans from the early 1980s.

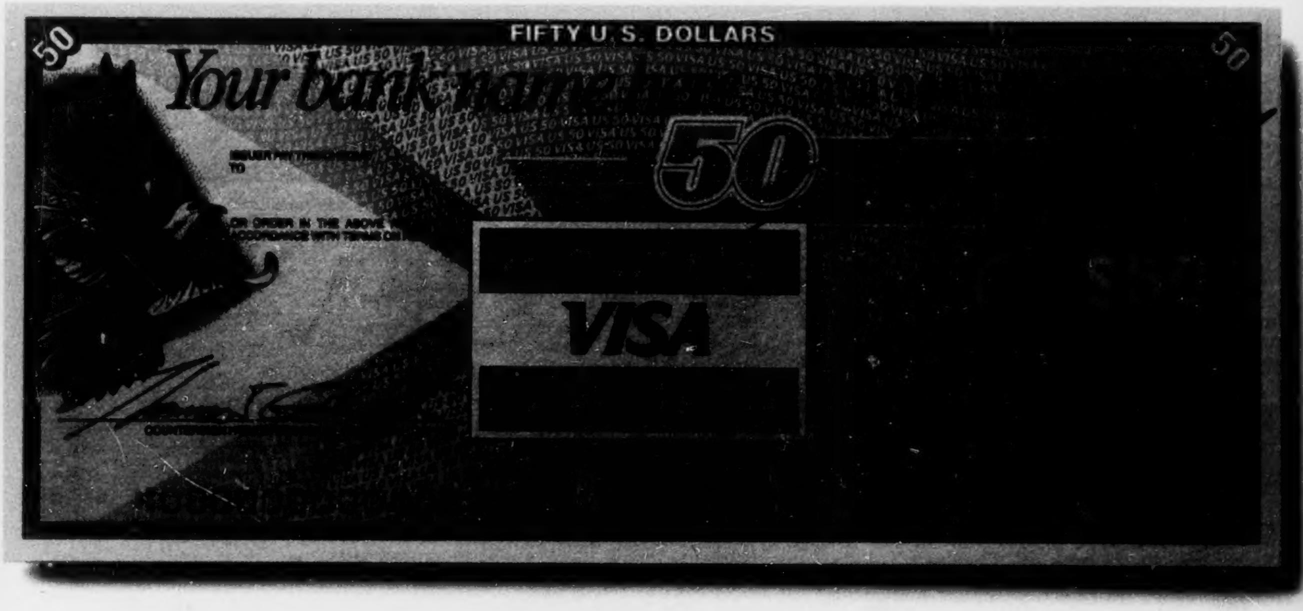
The American Banker survey also revealed that the preference for mortgage banks over thrifts this year was most pronounced among younger borrowers and those with the lowest incomes. "Part of the story has to do with FHA," said Thomas M. Holloway, senior economist for the Mortgage Bankers Association of America.

Mr. Holloway said mortgage banks originate about three-quarters of the low-down-payment loans guaranteed by the FHA.

Thrift executives predict a comeback after the industry has completed its restructuring, partly because the bailout law requires them to focus on residential lending.

"We realize this is a very tough market for adjustable-rate lenders, but we've done very well, and in a shrinkng real estate market," said Sam Lyons, senior vice president of mortgage banking for Great Western Financial Corp., Beverly Hills, Calif.

In terms of dollar volume, he said, it is still commercial banks that pose the biggest challenge to thrifts. □



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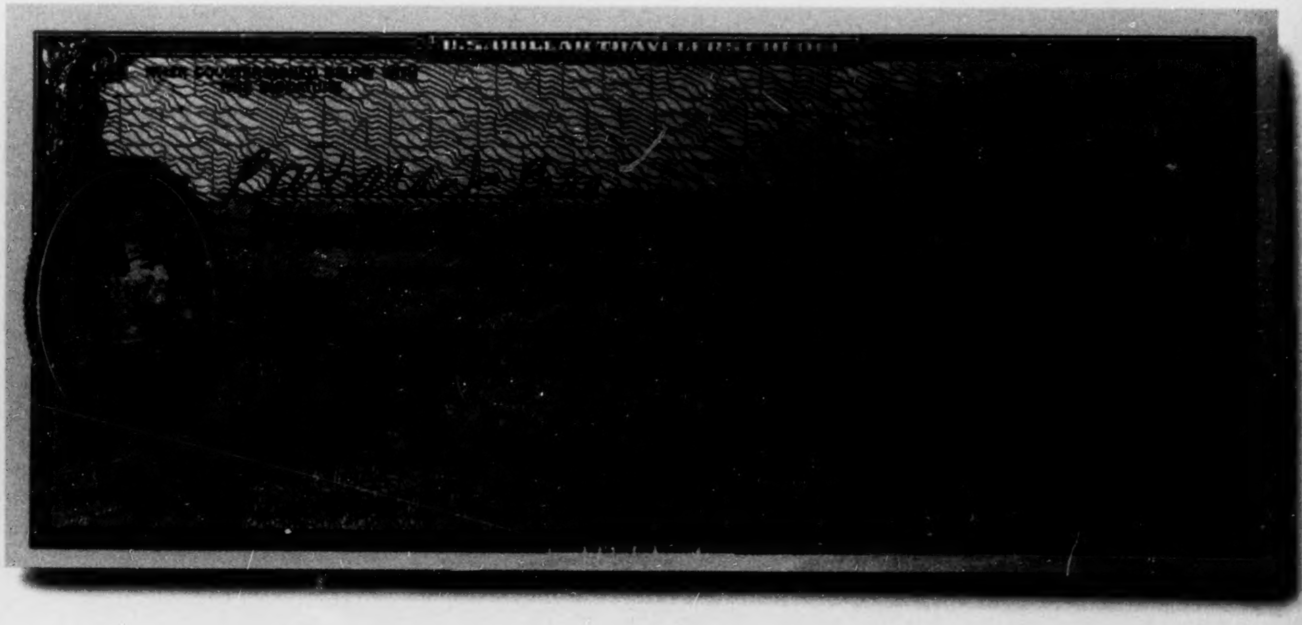

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Public Willing To Shop Banks for A Range of Products

By Ellen Memmelaar

A THIRD OF THOSE POLLED WOULD CONSIDER BUYING A VARIETY OF SERVICES AND PRODUCTS FROM BANKS

Consumers are open to the idea of obtaining insurance, securities, financial planning, and other nontraditional services through their banks, the *American Banker* consumer survey shows.

Although no more than 10% of the population has gone to depository institutions for such nonbank services, more than one-third said they would do so if they were available. Such receptivity could bolster bankers' arguments that the public would support repeal of the Glass-Steagall Act, which would bring banks into closer competition with insurance companies, securities brokers, and other nonbank service providers.

The survey responses suggest that banks could pursue the kind of diversification that could make the elusive "financial supermarket" a reality.

In the 1990 *American Banker* survey, Trans Data Corp., the newspaper's research affiliate, asked a nationwide sample of 1,024 consumers their reactions to seven categories of nonbanking services: securities, mutual funds, financial planning, insurance, travel, and annuities.

The number of people who already used banks for such services ranged from 3% with financial planning to 8% with securities - presumably the discount brokerage services that many banks have been allowed to offer since the early 1980s.

Meanwhile, the percentage who said they are willing to use banks for such services ranged from 30% with insurance to 40% with mutual funds.

New Revenue Sources

The findings should be encouraging to bankers who may be seeking new revenue sources to compensate for the narrower profit margins on traditional retail bank operations, particularly at institutions not large enough to gain the advantages of economies of scale.

Should bankers get into direct competition with other groups of financial professionals, such as brokers and insurance agents, past consumer research shows that the bankers will begin with a built-in advantage: the trust

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Ms. Memmelaar is a New York-based freelance writer.

of their customers. But they will be up against premier marketing and customer service organizations like Merrill Lynch & Co. and the Prudential Insurance Company of America, which have not suffered noticeably from previous attempts by bankers to cross-sell nontraditional services.

"People are comfortable with buying services from a number of specialized firms," said James Hanbury, an analyst at Wertheim Schroeder. "The marketing people at banks would have you believe that customers are walking around with signs demanding full service. They're not."

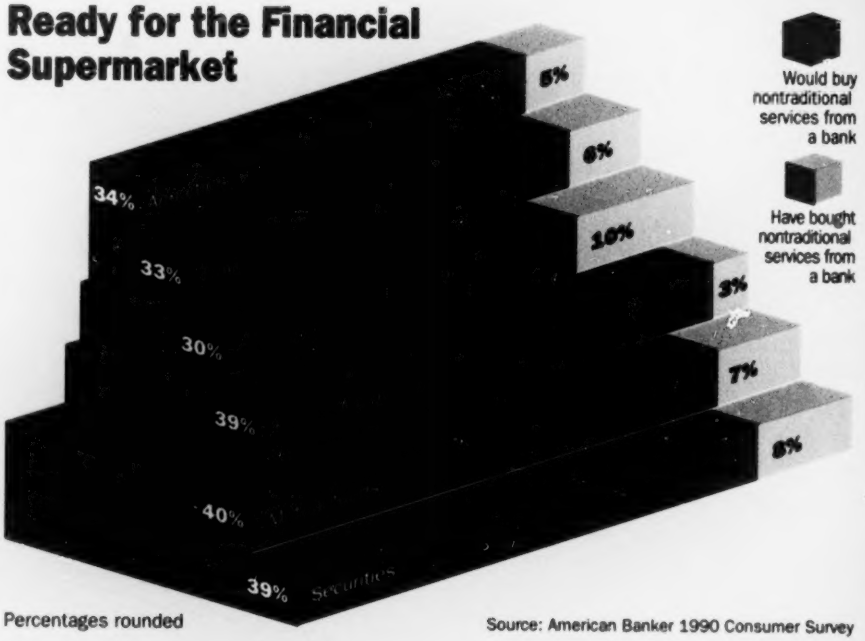
Indeed, some experts believe that the *American Banker* survey results are an early indication of customer interest in multiservice financial supermarkets.

"I don't think those numbers indicate the limit of the potential market," said Phillip Corwin, director of operations and retail banking at the American Bankers Association. "I think that once more banks are in [these businesses] and do a more effective job of cross-selling, there will be more consumers who will consider buying such services from them."

The Branch as Bazaar

Institutions like Banc One Corp., Security Pacific Corp., and Dollar Dry Dock Bank in New York have been in the forefront of the financial supermarket movement. They have redesigned branches specifically to house an assortment of services. When banks are prohibited by law from owning such businesses directly, such as a real estate brokerage or travel agency, they can rent space in the branch to a company that is duly licensed.

"There is an absolute need for these types of services," said Linda Lockhart, vice president of marketing at Dollar Dry Dock. "Most people have a need for these services and it is easier if they go to the same intermediary or financial institution and take care of everything at one time."


Ready for the Financial Supermarket

Percentages rounded

Source: American Banker 1990 Consumer Survey

Ms. Lockhart compared the newfangled bank to a convenience store. And while she admits that customers will not come in and impulsively buy a mutual fund like a bag of potato chips, "it's working for us," she said. Convenience and the legendary consumer trust of banks are key ingredients, she added.

But will customer trust disappear as bankers become more aggressive sellers?

"People trust bankers the most, but that is because in other industries the people are trained salespeople," said Les Dinkin, a consultant in Westport, Conn. "Bankers are learning to sell, but they don't do it real well yet. As time progresses and they do become more successful at selling, they will continue to look objective, but not as objective as today."

Representatives from the early financial supermarkets disagree.

"We're not shoving products down people's throats," said Ms. Lockhart. "It's all in the approach you take." At Dollar Dry Dock, the approach is an educational one. Seminars, booklets, and other forms of education "sell" the customer on the product or service, she said.

Given that banks remain limited in their diversification options, not to mention budget and personnel constraints, even the busiest bank marketers agree that it is best to move one step at a time into the financial supermarket. For most, insurance is the favorite first step.

"All the research I've seen indicates that while people are relatively satisfied with their own insurance companies, they are very open to buying insurance from a bank," said John Russell, vice president of corporate communications at Banc One in Columbus, Ohio.

"Banks are not as aware of [insurance] as they should be," said Mr. Corwin. "They are waiting for Congress to authorize it. They don't know that there is quite a bit they can already do."

Banc One is currently making its first forays into the insurance arena, said Mr. Russell. It works with Nationwide Insurance and other distributors in its offices. ☐

Crisis Hasn't Tarred Local S&Ls

But Finding May Have Preceded Wave of Ill Will

By Michael Weinstein

Residents of Holden Beach, N.C. often gather at L. Bookworm, the local bookstore, to discuss current events. These days, the talk often turns to the thrift crisis.

The S&L mess is "very confusing for most people," said James W. Lowell, the store's proprietor, who until last October was program manager for community affairs at the Federal Reserve Board in Washington. But "they don't feel there's any threat to their personal money. People basically stay with their bank unless they've got a problem."

The sentiment in the tiny beachfront community mirrors that reflected in the 1990 *American Banker* consumer survey.

Although consumers were generally less confident about the state of the financial industry, their satisfaction with their own institutions remains relatively high and constant.

Of 987 financial institution customers surveyed, 61% said they were "very satisfied" with their principal bank, thrift, or credit union. The percentage was the same as last year and matches the average for the seven years in which the *American Banker* has commissioned a consumer poll.

"I'm amazed there wasn't a big dropoff in satisfaction" as indignation rose over the thrift debacle, said William Adcock, chairman of Synergistics Research Corp., Atlanta.

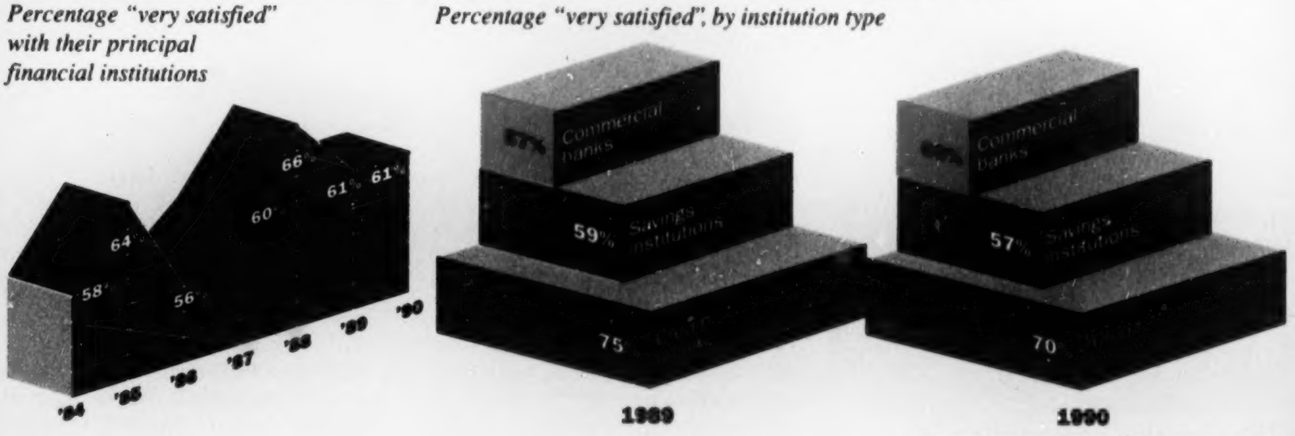
Consumer satisfaction might have registered a decline if the survey, conducted in May, had been done later in the spring or summer, said Kathleen C. Holmes, executive vice president at Furash & Co., a Washington, D.C.-based consulting firm. Consumers, she said, have become increasingly angry because of press reports alleging that many S&L officers are guilty of greed and misconduct.

"I am surprised there is no movement," added Michael P. Sullivan, an independent marketing consultant in Charlotte, N.C.

Actually, there were minor changes in customers' satisfaction, varying with their primary financial relationship. ☐

Mr. Weinstein is a business writer based in Cave City, Ky.

Satisfaction with Principal Institutions Held Steady... And Credit Union Members Remained the Most Satisfied



Percentage "very satisfied" with their principal financial institutions

Percentage "very satisfied", by institution type

Source: American Banker 1990 Consumer Survey

Consumers Issue Mixed Report Card On Quality of Service

By Joseph L. McCarthy

SOME PROBLEM AREAS ARE CONVENIENCE, SPEED OF SERVICE, RESOLUTION OF COMPLAINTS

As bankers scramble to gain a competitive edge by improving the quality of their service, participants in this year's *American Banker* consumer survey handed the industry a mixed report card.

About 69% characterized the overall quality of service at their institutions as excellent or good in the 1989 survey. But when probing specific problem areas, the survey found that 5% to 7% of consumers said their primary bank's convenience, speed of service, complaint resolution procedures, and staff courtesy were fair or poor.

Weighting all responses on a scale of 1 to 5, with 1 signifying poor and 5 excellent, the industry scored 3.82 for overall quality – essentially a "B-minus" that leaves substantial room for improvement.

"Many banks are doing a lot of things, but they are not necessarily the right things," said J. Douglas Adamson, executive vice president of the Chicago-based Bank Marketing Association. "Banks need to take a much more scientific approach" to quality.

"Within the banking industry, we have a conceptualization of the importance of service quality, but we don't have an understanding of it," he said. "I absolutely believe that banks need to be doing more."

One of the first problems is defining the term. "Often, service in the minds of the consumer is not what the bank defines it as," said Douglas Smith, managing director of BEI Golembe, a Washington-based consulting firm.

Industry watchers differ on the correct approach to quality, as well as how much emphasis to place on the concept. Optimists are pleased that there is general satisfaction with the industry, underscored by numerous surveys including the latest *American Banker* poll, which was conducted last May by the newspaper's research affiliate, Trans Data Corp.

Free-Market Demands

Pessimists, meanwhile, point out that banks are laggards on the quality bandwagon and that industrywide monitoring and corrective procedures are not yet on a par with those of other businesses. Quality controls, the argument goes, are more effective among manufacturers, many of which have

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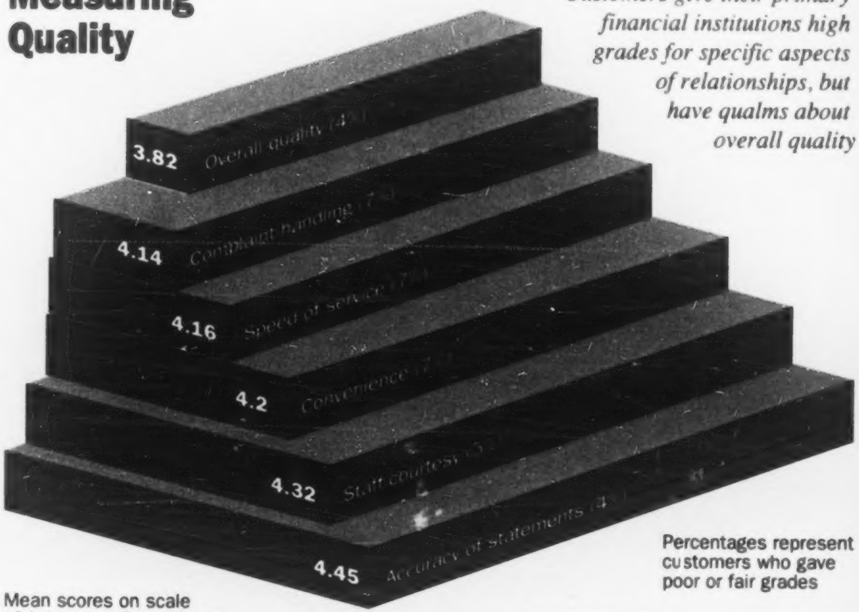
Measuring Quality

Customers give their primary financial institutions high grades for specific aspects of relationships, but have qualms about overall quality



Mean scores on scale of 1 (poor) to 5 (excellent)

Percentages represent customers who gave poor or fair grades

Source: American Banker 1990 Consumer Survey

been exposed longer than highly regulated banks to competitive, free-market pressures.

All seem to agree that the push toward quality among financial institutions in recent years has become a strategic priority. According to a study of 120 U.S. and Canadian financial institutions conducted earlier this year by Pittsburgh-based Keith Brinksman Associates, 69% of North American banks now have some kind of formal quality improvement program in place.

The reasons for the sharpened focus are not hard to decipher. Perhaps most important, there are the tangible dividends paid by such programs. According to the Conference Board, a New York business research association, the annual costs of defects, errors, and waste at manufacturing and service companies runs between 20% and 30% of total revenues. And many say the estimate is conservative.

"We know that if done correctly, for example, we can make a money transfer for less than $10," said Aleta Holub, vice president and manager of quality assurance at First National Bank of Chicago. "By contrast, if we make a mistake, that cost averages just under $500."

Risk of Defection

There is also the fact that a fair proportion of consumers seem liable to shut down an account or jump ship to another institution because of quality-related snafus. According to the *American Banker* survey, 42% of consumers have made such decisions.

Divided by age group, the survey revealed that 56% of respondents between 35 and 44 years old have closed an account or changed banks because of quality problems. Divided by income, while only 34% of those earning below $20,000 a year have made such a move, that figure rises to 49% among those earning more than $70,000.

The quality issue also appears to have broad ramifications for an industry that depends on consumer confidence and trust.

Confidence in the U.S. banking and financial system correlates to consumers' view of service quality at their principal financial institution. Four-fifths of those with a great deal of confidence in the banking system rate their institution's service quality as good or great, while only half of those with little or no confidence say the same.

Erasing Errors

Respondents awarded the industry a superior grade on the accuracy of financial statements, with 87% rating their institution's accuracy excellent or good. Some industry watchers attribute the strong performance to a decision by many banks to rely less on intuition and more on easy-to-monitor, empirical techniques, particularly in the areas of data collection and process control.

Beginning in 1981, for example, First Chicago began to chart on a weekly basis more than 500 statistics on customer satisfaction with a range of cash management services and products. In a recent Conference Board report, "Making Total Quality Happen," the bank's Ms. Holub wrote that in one category – the frequency of error-related inquiries on corporate disbursements – First Chicago averaged one error for every 4,000 transactions in 1982. But now, she said, that rate is one error for every 8,000 to 10,000 transactions.

True to tradition, some bankers eschew empirically oriented procedures, preferring instead to promote quality by building a vibrant culture that empowers staffers and places a premium on creativity and innovation.

"I don't want to run this place like an army," said Charles S. Sanford Jr., chairman of Bankers Trust Co. "I'd rather pattern my organization after a theater company or opera. I see the people we are trying to attract and retain as more like artists or musicians." □

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Public Prefers Local Institutions

Customer Support Deemed Crucial to M&A Success

By Judy Ferring

The success of a merger often depends on the surviving institution's ability to retain the customers, loans, and deposits that made the acquisition attractive in the first place.

That's partly because among consumers, community feelings run strong: 68% of those polled said they prefer a community-oriented institution; just 23% said they would be happier banking with a larger company. The other 9% expressed no preference.

This sentiment was somewhat muted, however, when consumers were asked whether they would withdraw their funds from a bank after it is taken over. While 30% said they would change banks, 41% said they would be unlikely to do so, and 23% were neutral.

Consultants say banks' best post-acquisition strategy is to continue as community institutions, using branch staffs and managers as the linchpins of the new organization.

"There's a lot of concern [at acquiring banks] that service be maintained through the stabilization period," said Michael S. Joseph of Ernst & Young, the consulting and accounting firm. During the transition, which lasts six months to a year, branch staffs should concentrate on reaffirming community orientation through high-quality, personalized service, he said.

This has at times been so important, said John Lyons, managing principal of the New York consulting firm Lyons, Zomback & Ostrowski, that banks have signed contracts with their branch managers, giving them incentives to maintain or build deposit bases.

But top management can unintentionally sabotage its own goals, Mr. Joseph pointed out. Failure to communicate with branch managers and staffs can lead to confusion and disaffection that will quickly be felt by customers.

"Let the branch staff know what's coming," Mr. Joseph advised, "so when customers ask – and they will – they can give a good answer."

Open lines of communication are especially important if cutbacks are in the offing. A candid discussion of such changes and what compensates for them will help allay employee resentments and fears that could easily be passed on to customers.

Management's desire to build deposits quickly can backfire: A decision to market high-yield certificates aggressively may divert attention from loyal, stable customers. Such a drive may instead attract "hot money," which will leave the bank at renewal time in search of higher rates.

Top executives can help by giving branch managers the tools to give good service and keep accounts, Mr. Joseph said.

But that often requires investment, such as "the budget to hire enough tellers to keep the lines short," he said. "A branch manager can't control [customer] turnover unless the corporation views that as important." □

> *"Top management can unintentionally sabotage its own goals. Failure to communicate with branch managers and staffs can lead to confusion and disaffection that will quickly be felt by customers."*
>
> **MICHAEL S. JOSEPH**
> *Consultant*
> *Ernst & Young*

Ms. Ferring is senior editor of The Branch Manager, an American Banker newsletter.

Credit Issues

Growth in the credit card market continues, fueled partly by the resounding success of AT&T's new Universal card. Meanwhile, interest in home equity loans lags as Americans fail to be swayed by the benefits of tax deductibility.

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Public Appetite For Credit Cards Continues to Grow

By Michael Weinstein

THOUGH SOME SAY FINDING THAT 27% ACQUIRED A NEW CARD EXAGGERATES THE ACTUAL TREND

Recent reports that the credit card market is saturated are much exaggerated, according to the *American Banker* consumer survey.

The nationwide poll found that 27% of households that already had a credit card acquired at least one more in the past year.

This finding, which justifies bankers' efforts and expenditures in recent years to issue more cards, provoked a mixed reaction among bankers and card industry experts.

Those who see little room for growth in the card business viewed the 27% figure as too high. Four of five households report they own credit cards, leading some bankers to conclude that virtually all creditworthy people have the cards they want and need.

But other observers say the survey finding indicates that there is still plenty of life left in plastic.

Much of the growth may be coming from the premium card business: The survey showed that 13% of the nation's cardholding households upgraded to a gold version in the past year.

"It seems very high to me," said Dennis D. Dumler, executive vice president at Denver-based Rocky Mountain BankCard System Inc., of the 27% increase in new cards. Several bankers said their new accounts were up only about 10% in the past year.

"My suspicion is the incremental number is closer to 10%," said Bartt Brick, vice president and manager of card product management at U.S. National Bank of Oregon, Portland.

Countered Donald J. Auriemma of Auriemma Consulting Group Inc., Garden City, N.Y., "It kind of belies the proposition that this is a saturated market where there is little opportunity for growth."

Cash, Checks Still Big

"Plastic as a payment vehicle is not saturated," countered Robert K. Hammer, who recently left his post as senior vice president at First Interstate Bancard Co., Simi Valley, Calif., to start his own merger and acquisition firm in Newbury Park, Calif.

Mr. Weinstein is a business writer based in Cave City, Ky.

Mr. Hammer observed that only 13% of all transactions are handled by credit cards; the rest are completed with cash or checks. "You have an opportunity to grow the credit card business," he said.

Much of the new card growth in the past year came from retailers' cards, which, according to the survey, represented 35% of the new cards. "The retailers have been pushing," said Helene Duffy, a principal at Duffy & Duffy Inc., a New York consulting firm.

Retailers are worried that usage of their own cards has dipped, while the sales volume has been shifting to MasterCard and Visa cards, Mrs. Duffy said. "The retailers are concerned that they're losing interface with their customers."

Many consumers received their first credit cards from a retail store and have gone on to use Visa and MasterCard more often. Sixty-three percent of all consumers (77% of card-holding consumers) have one or more cards issued by a retailer. Visa claims 56% of all households (68% of cardholders), MasterCard 47% (56%), the oil companies 38% (46%), and American Express 22% (24%).

"Retail is the easiest sell to consumers, because there's no annual fee," said Jerry Craft, executive vice president at First Wachovia Card Services Inc., Atlanta, the credit card arm of First Wachovia Corp. "That's also true for Discover and some banks within Visa and MasterCard."

Discover, the general purpose credit card from Sears, Roebuck & Co., does not carry an annual fee. Since 1985 it has attained 23% penetration of all households (28% of cardholders), but it is used most often by only 5% of cardholders. Visa is used most often by 31%, outpolling MasterCard (22%), retailers (15%), oil companies (12%), and American Express' various card brands (7%).

Mr. Craft was not surprised by the growth in new cards, describing the business as "very active." Much of the growth at First Wachovia has occurred with cards carrying a lower than usual interest rate.

Collecting Cards

Eight of 10 American households have one or more credit cards. In order of popularity:

	Household penetration
Retail store	63%
Visa	56
MasterCard	47
Oil company	38
Discover	23
American Express*	22
Diners Club	3

*Includes Optima (1.8%)
Answers of "none" and "don't know" not shown

Using Cards

Visa is used most often. Percentage of cardholding households identifying most-used card

	Households
Visa	31%
MasterCard	22
Retail store	15
Oil company	12
American Express	7
Discover	5
Diners Club	<1

Source: American Banker 1990 Consumer Survey

"Most of our new business is going on at 14.8%," Mr. Craft noted.

Even bankers who were skeptical about prospects for rapid growth in the card business were more optimistic on the outlook for growth in niches such as premium cards and cards oriented toward business use.

Automatic Upgrades

Indeed, some banks have automatically upgraded some of their standard cardholders to premium brands.

"A lot of banks have gone out on a preapproved basis," observed Stanley W. Anderson, president of Anderson & Associates, an Arvada, Colo., consulting firm.

At Rocky Mountain BankCard, for example, cardholders with at least 10 years' standing and clean credit records have been automatically upgraded to premium cards, Mr. Dumler said. The interest rate, annual fee, and other terms of the credit agreement were not changed, he said, but in some cases, credit limits were increased.

Forty-five percent of Rocky Mountain BankCard's portfolio is now premium cards, and Mr. Dumler said most of those cards were issued automatically.

One motivation for banks to upgrade cardholders is higher profits. The average credit line on standard cards is under $3,000, while on premium cards it is $5,000. People deemed creditworthy enough for a prestige product tend to be better risks than the mass market, and their larger credit lines yield more income.

According to Mr. Auriemma's estimates, standard cards generate a pretax return on assets of 3% to 4%, while premium cards earn 4% to 5%.

Defensive Tactic

Upgrading customers to premium cards is also a defensive tactic. If consumers are given higher credit limits and increase their borrowing, bankers hope they will be less likely or less able to switch to a credit card from a competing bank offering a lower credit line.

"It may be harder for the customer to pick up and move if you're lending him more money," observed Mr. Craft of First Wachovia. "It's harder for Donald Trump to change banks than for you or me." ☐

AT&T's Entry Sends Wake-Up Call To Established Cards

By *Yvette D. Kantrow*

UNIVERSAL CARD WINS EARLY RECOGNITION THANKS TO AD BLITZ, MEDIA COVERAGE

American Telephone & Telegraph Co.'s general purpose credit card, already being hailed as one of the great coups in financial services marketing, enjoyed an unusually high degree of consumer acceptance from the start, the *American Banker* consumer survey showed.

When contacted less than two months after the card's launch in late March, 52% of the 1,024 people polled said they were familiar with AT&T's Universal card. In the wake of an advertising blitz aimed at gaining quick recognition in the mass market, 4% of the consumers said they had already applied for an AT&T card and another 20% expressed some degree of interest in obtaining one.

Thus, the AT&T card has the potential to be acquired by at least 20 million households, rivaling the penetration of the American Express card, the Sears Discover card, and the MasterCard/Visa base of the largest bankcard issuer, Citicorp. And AT&T's marketing has barely begun.

"I don't think there is any question that they have done well, especially in such a short time frame," said Anne Moore, president of Synergistics Research Corp., Atlanta.

According to AT&T, about 2.7 million AT&T Universal card accounts – with 4.6 million cardholders – had been opened by mid-August. The first million of those accounts were opened within 78 days of the product's introduction.

Universal Bank – the subsidiary of Synovus Financial Corp., Columbus, Ga., that is issuing the card – is now the country's eighth-largest credit card bank, with more accounts than big issuers like Associates National Bank, a Ford Motor Co. subsidiary, and Manufacturers Hanover Trust Co.

Annual Fee Waived

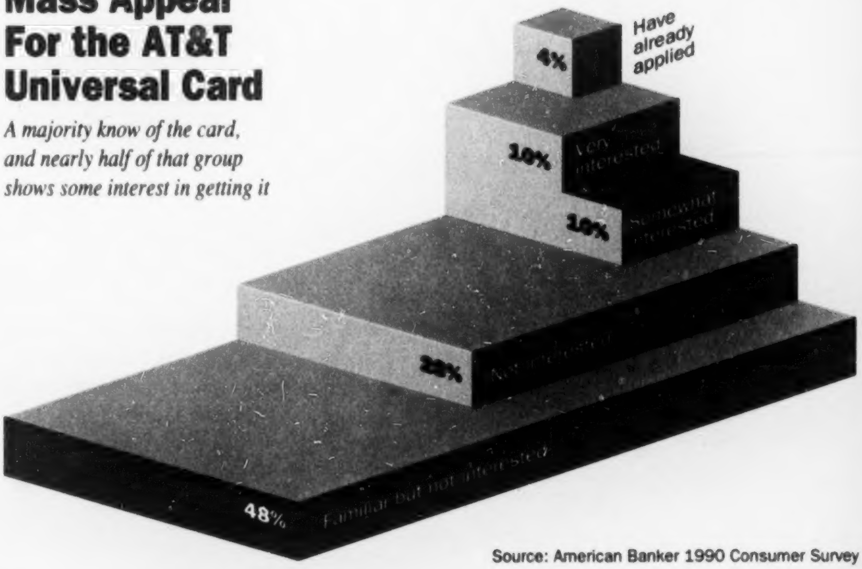
If the product continues to grow at the initial rate, Universal Bank could have 12 million AT&T accounts by next summer. Citicorp, the nation's largest issuer of bank cards, has about 20 million card accounts in the United States, representing 27 million cardholders.

Many credit card executives attribute the popularity of the Universal

> *"Everyone calls the [Universal] card 'the AT&T card,' and they hear about it on the nightly news. With Discover, it took a lot longer for consumers to connect the card to Sears and to identify it."*
>
> **ANNE MOORE**
> *President*
> *Synergistics Research Corp.*

Mass Appeal For the AT&T Universal Card

A majority know of the card, and nearly half of that group shows some interest in getting it



Source: American Banker 1990 Consumer Survey

card – a MasterCard or Visa card that can also be used to pay for long-distance calls – to the fact that AT&T is not charging an annual fee. Virtually all bank cards cost at least $15 a year in addition to monthly interest on unpaid balances, but AT&T is contenting itself with interest income, at least for now.

The telephone company has said it will consider such a charge in the future, but as part of its bid for quick acceptance it has promised that people who sign up during the first year will never be charged a fee if they use the card at least once a year.

Annual Fee Waived

The no-fee strategy is similar to one followed by Sears, Roebuck and Co. when it launched the Discover card in 1986. The giant retailer was able to attract close to 12 million cardholders during the first year of Discover's existence and increased that to 33 million by yearend 1989.

Industry observers expect the Universal card to be more successful than Sears' offering was in its early days. "Everyone calls the card 'the AT&T card' and they hear about it on the nightly news," Ms. Moore said. "With Discover, it took a lot longer for consumers to connect the card to Sears and to identify it."

Discover suffered from low usage rates its first year, partly stemming from the small number of retailers that initially accepted the new brand. Many consumers applied for Discover because it was free, but since they did not use it very often, interest income on unpaid balances was slow to accumulate.

But the Universal card carries the MasterCard or Visa logo, making it acceptable at millions of stores worldwide. This feature increases the likelihood that cardholders will use their cards to make purchases.

They will pay an interest rate on outstanding balances of 8.9 percentage points above prime, making the current rate 18.9% – in line with the national average for bank credit cards.

Customers also receive a 10% discount on AT&T long-distance calls charged to the card. ☐

Equity Loans Get Cool Response

Tax Deductibility Fails as Selling Point

By Yvette D. Kantrow

> *"Consumers are becoming savvy, realizing that it's not a good idea to leverage the house."*
>
> **KEITH GUMBINGER**
> *HSH Associates*

Despite aggressive marketing efforts by banks and other lenders, only 13% of consumers said they have a home equity line of credit, according to the 1990 *American Banker* consumer survey.

Consumers said they like the convenience of home equity lines more than the tax deductibility of the interest payments. That is surprising, given that home equity lines of credit attracted attention largely because they were one of the few forms of consumer debt to retain tax deductibility under the Tax Reform Act of 1986.

"Home equity lines are not the big panacea products that banks and savings and loans were telling people they were a couple of years ago," said Keith Gumbinger of HSH Associates, a mortgage market research firm in Butler, N.J. He predicted they will become less popular as consumers lose confidence in the economy.

Smarter Consumers

"Consumers are becoming more savvy, and they are realizing that it's not such a good idea to leverage their houses to buy things," Mr. Gumbinger said.

The survey showed 28% of consumers who have home equity lines like the convenient access to them. Another 21% like the fact that they can deduct their interest payments on their tax returns.

"The tax-deductible feature really only appeals to more affluent people in a higher tax bracket," Mr. Gumbinger said. "These are people with large balances on their credit cards or a lot of money outstanding on auto loans."

Among respondents aged 35 to 54 with home equity lines, 39% with incomes exceeding $50,000 a year said they liked the tax deductibility. Another 26% mentioned convenience as their favorite feature.

Aiming for the Wealthy

Affluent respondents in that group were also the most likely to have home-equity lines. Twenty-nine percent of consumers in this category said they have one such loan.

Home equity lines also appeal to older, higher-income consumers in the survey. More than one-quarter of the respondents over the age of 55 with incomes of more than $50,000 said they have home equity lines. Of that group, half said they favored the lines because they are tax deductible. Another one-third enjoyed the convenience.

Mr. Gumbinger said lenders will continue to emphasize the tax deductibility of home equity lines in their marketing efforts, hoping to pull in wealthier customers. Commercial banks, which entered the home equity market later than thrifts, are expected to push the loans the hardest. Still, he warned, touting the product is becoming "a daring proposition in some markets" where real estate values are dropping. □

Card Growth Shows Contradiction

Consumers Complain of Debt Load But Add Plastic to Wallets Anyway

By Linda Corman

> *"Watch what they [consumers] do, not what they say."*
>
> **STEPHEN SZEKELY**
> *Vice President*
> *Payment Systems Inc.*

Despite their eager participation in the credit culture, many consumers express resentment about the size of their debt loads and the aggressiveness with which financial institutions push credit cards and other easy-credit products.

In the *American Banker* survey of 1,024 consumers nationwide, 82% said individuals have taken on too much debt. Sixty percent agreed with the statement "Banks are pushing too much credit on consumers."

But there seems to be no reason for bankers and other credit card issuers to fear that their business – one of the great success stories of modern banking – is going to wither away. The *American Banker* data and other surveys show that consumers are filling their wallets with new cards as rapidly as ever.

The apparent inconsistency is not hard to explain, experts say. Historically, consumers have felt that they have dug themselves too deep into debt, but they do not change their ways.

"Consumers feed back what they think is socially acceptable to say, but they act practically," said Stephen Szekely, vice president of Payment Systems Inc. in Tampa, Fla. "Watch what they do, not what they say."

"People think one way and act another," said Michael J. Auriemma, consultant for the Auriemma Consulting Group of Garden City, N.Y. "I spend too much, but I continue to spend. I pay too much rent for an apartment in Manhattan, but do I want to move?"

One reason consumers may be feeling more behind the eight ball is that there are increasing signs of a weakening economy, said David D. Hale, first vice president and chief economist of Kemper Financial Services.

With the economy slowing and oil prices up, "even a moderate amount of debt seems like a lot," said Mr. Hale. "There's more insecurity than there was a year ago. People's perception of risk has gone up."

In fact, the ratio of consumer debt to income has not changed in 20 years, Mr. Szekely said.

Consumer surveys can be misleading, he said, because consumers will often cite cost as a key determinant in their behavior, even though that is not the criterion they use to make decisions. This is supported by the fact that the most popular cards may charge the highest interest rates and offer a wide range of services.

Similarly, when consumers are asked why they switch credit cards, they often say they wanted a lower rate – when really they were after frequent-flier miles or other perquisites.

That may shed light on another finding of the American Banker survey: 63% of respondents said they would switch credit cards for a lower rate. But actual change rates are not nearly that high. □

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Deposit Issues

Many are willing to pay for insurance on purchases made by check, although currently the perk often is offered free of charge. And despite the proliferation of usage fees, convenience is compelling a substantial segment to keep doing business by ATM.

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Interest Strong In Checking Accounts With Insurance Kicker

By Ed Lynch

A THIRD OF THOSE SURVEYED SAID THEY WOULD BE WILLING TO PAY FOR COVERAGE ON PURCHASES BY CARD

Retail bankers may be on to something hot with the buyer protection insurance and extended warranties that they are tying to checking accounts, according to the *American Banker* consumer survey.

Of the 1,024 respondents in the survey sample, 48% said they were somewhat or extremely interested in the programs that insure purchases made with checks. And although most banks that have started such programs are not charging for it, 33% of the consumers said they would be willing to pay for the insurance and warranties.

Valley National Bank of Arizona gave checking insurance national exposure in January with its Shopper's Assurance package. Valley's program and others that followed insure most merchandise against loss, damage, or theft for 90 days after the purchase date, and double manufacturers' warranties up to one year.

The idea of extending the buyer protections from credit card accounts to checking accounts originated in a Tampa, Fla., marketing affiliate of Telecredit Inc., the credit card processor and check-guarantee firm.

Dennis Driscoll, senior vice president of Telecredit Marketing Services Inc., said First West Virginia Bank was the first to pick up on the idea. In October 1989, he said, the bank offered to double the warranty up to a year on certain purchases made with checks. The offer extended only to members of the bank's "VIP 50" club, who are at least 50 years old, he said. Soon after, other small community banks started to sign up with Telecredit to offer the service.

But it was not until after Mr. Driscoll contacted his friend, bank marketer N.W. "Red" Pope of Valley National Bank in Phoenix, that the idea really took off.

"I called Red not to sell him but to get his input," Mr. Driscoll said. Two days later, Mr. Pope called back, saying that Valley National wanted to be the first with a program that both extended manufacturers' warranties and insured check purchases.

Mr. Pope, senior vice president for marketing at Valley National, said the national publicity generated by being the first major bank to offer buyer protection for checking impressed cus-

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Mr. Lynch is a business writer based in New York.

tomers, institutional investors, and the rest of the retail banking industry.

"I'd say we averaged about 60 calls a week [from banks and thrifts interested in the program] for about the first six weeks after we started," Mr. Pope said.

Bank of America, Citibank, Chase Manhattan Bank, and First National Bank of Chicago were just a few of the large institutions that followed Valley National's lead. Also, scores of community banks and thrifts quickly got into the act.

The perks offered vary from bank to bank. In general, however, the buyer protection plan for checking accounts offers to double the manufacturer's warranty up to a year and to replace the value of an item that was bought with a check and has been lost, stolen, or broken within 90 days of purchase. Many big-ticket items such as cars, boats, and jewelry are excluded, as are plants, animals, services, fine art, and negotiable instruments, such as stocks and bonds.

The insurance tends to be a last resort, effective only when other coverage – such as a homeowner's policy – does not foot the bill. Banks offering the coverage also provide customers with a toll-free telephone number to deal directly with the underwriter when making a claim.

Pockets of Resistance

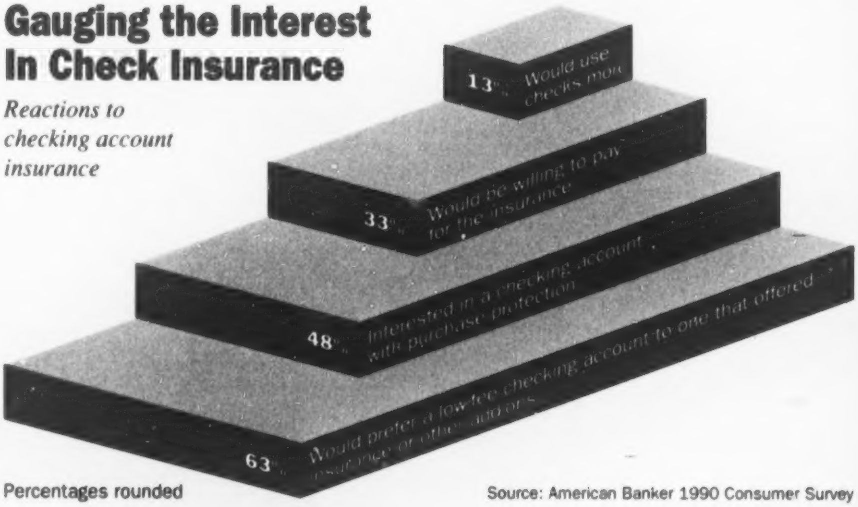
But many banks are taking a wait-and-see attitude toward the purchase insurance.

"We don't see it as a product that is sweeping the nation like NOW accounts did," said J. Douglas Adamson, executive vice president of the Bank Marketing Association.

Manufacturers Hanover in New York has opted to watch from the sidelines as its competitors Citibank and Chase Manhattan, as well as several area thrifts, started buyer protection plans.

Gauging the Interest In Check Insurance

Reactions to checking account insurance



Percentages rounded

Source: American Banker 1990 Consumer Survey

Manufacturers Hanover Trust Co. of New York is one major institution still on the sidelines. Robert Hutchinson, senior vice president for retail banking, said he sees buyer protection programs as more appropriate for credit cards, because consumers use plastic more often for larger purchases.

> *"We know there is high awareness of the product, and people are telling us it's a reason for choosing us."*
>
> **N.W. "RED" POPE**
> *Senior vice president*
> *Valley National Bank*

"We haven't seen any information that says not having [a buyer protection plan with checking accounts] will be hurting us," he said. "I don't think it has a significant bearing on attracting new customers to the bank."

"Anybody can say they're interested," he said of the *American Banker*'s survey findings. "That doesn't necessarily mean that they will be willing to switch banks for it."

Like Manufacturers Hanover in New York, Wells Fargo bank is taking the wait-and-see approach. Kim Kellogg, vice president and manager of public relations, said Wells officials noticed that buyer protection plans on credit cards were hardly used, so it did not make sense to extend the insurance to checking accounts.

Likewise, Mr. Adamson warned that banks should do their own research before jumping on the buyer-protection bandwagon.

"I think there are some cautions that banks should take with this," said Mr. Adamson of the BMA. "There is a competitive market advantage to this, but the competitive advantage is usually only achieved by one bank," the first bank in a given market to offer the perk.

If a majority of banks offer buyer protection on checking accounts, Mr. Adamson added, customers will think it has become a part of basic checking service and "then the enhancement is lost but the cost is still there." (On average, the banks pay an annual premi-

> *"If we saw we were losing accounts, we would consider adding it – but not because everybody else is doing it."*
>
> **KIM KELLOGG**
> *Vice president*
> *Wells Fargo Bank*

um per account of about $1 for the insurance on checking.)

But for those banks on the vanguard of offering the perk in their markets, Mr. Adamson also noted, there is a definite advantage in the marketing of their checking accounts. It makes tangible a product that is often viewed as intangible, he said.

"Banks want to be able to say, 'A checking account at our bank is different from a checking account at their bank, and here is why.' This [a buyer protection plan] is easier to explain than how services are better."

Many marketing executives whose banks offer the product say buyer protection also gives their salespeople an edge in selling and cross-selling products.

"All these checking accounts look pretty much the same to most customers, but if you have buyer protection and extended warranty, it's a heck of a tiebreaker," said Tom LeMasters, vice president and branch administrator at Napa Valley Bank in California.

After reading in the *San Francisco Chronicle* about Valley National Bank's program, "everybody in our bank agreed this was going to be something that was going to become standard in the industry for checking accounts," he said. "We just wanted to get the extra mileage out of it by being the first in the area to offer it."

Napa Valley Bank was the first in California to introduce the feature, beating the much larger Bank of America by a week.

Another similar reason that many executives cite for not offering the perk is that most major purchases are made with credit cards, not checks.

Defining the Market

The *American Banker* survey, conducted by telephone last May, indicates that younger consumers tend to be most interested in the insurance. Sixty percent of respondents between the ages of 18 and 24 are somewhat or extremely interested in the insurance, compared with 33% of those over 65.

The survey also found that 56% of consumers between 18 and 24 said they would prefer a fee-based account offering additional benefits, indicating that packaged accounts directed toward young consumers have reasonable prospects for success. But for 63% of the total population, a low-fee checking account is preferable to one with insurance and other add-on services.

"Our market research showed that the 35 and older age group were most interested" in checking insurance, said John Russell, vice president of Banc One Corp., Columbus, Ohio. "When we're talking about 18-year-olds, they may be extremely interested but they don't have the disposable income."

Banc One chose to offer a buyer protection plan solely on its Blue Max account, which has a $2,500 minimum balance and "ordinarily appeals to older customers with more money," he said.

Mr. Pope said that although his bank does not demographically divide data on accounts that offer buyer protection, his best guess is that the insurance would more likely be used by a broad range of consumers, including those with relatively lower incomes.

"I would suppose that people who are more concerned with not being able to replace big-ticket items because they don't have the cash would be more interested in it," he said.

Most bankers and industry watchers say it is still too early to tell who is taking the most advantage of buyer protection and how often. Some banking executives have referred to buyer protection for checking as a "flavor-of-the-month fad." Only 13% of consumers said they viewed the insurance plan as an incentive to use checks more. □

Signs of Confusion over Pricing

Many Think Procedures Could Be Simplified

By Judy Ferring

> *"The most common thing that screws them up is forgetting to include the check-order fees or the monthly service fees,"*
>
> **NANCY HERMANSON**
> *Service representative*
> *First National Bank*
> *Valley City, N.D.*

When Nancy Hermanson, a service representative at First National Bank in Valley City, N.D., opens new checking accounts, she takes pains to acquaint customers with the bank's pricing schedules.

Yet, many of Ms. Hermanson's customers return to seek more information, perplexed by account statements they don't understand or don't believe.

Ms. Hermanson said the problem is not a failure to understand pricing systems – including, for example, the fee schedule on checking accounts that require minimum balances. Instead, it is a matter of understanding what it means to balance a checking account.

"They just mark off the checks to be sure they're all there. They don't really balance it," she said. "The most common thing that screws them up is forgetting to include the check-order fees or the monthly service fees."

At least in part, respondents to *American Banker*'s seventh annual consumer survey agree with Ms. Hermanson. More than 90% said they knew whether or not their checking accounts required minimum balances, and about two-thirds said they had to keep a minimum balance. The pricing formulas were clear to 59%.

But in an indication that consumers are irritated by banks' increasing proclivity to charge for basic services, 36% said they thought the pricing procedures could be simplified.

Bankers say they're trying, but that in an era of multiple options and packaged accounts things aren't that simple. According to the American Bankers Association's annual Retail Deposit Services Report, most regular checking accounts have two to four pricing tiers. Many have taken steps to explain the charges in simple, tabular form.

Greenfield Banking Co., Greenfield, Ind., lays out its six tiers in a table that would fit into most checkbooks. Maintenance charges range from $3.50 for account balances averaging under $100, down to 50 cents for those between $400 and $499. Above $500, the accounts are free.

Valley's is especially easy to use. Customers can read down a table of various account features, checking off those that best fill their needs. The pattern of their choices reveals the most suitable type of account. There is even a small box titled "Ways to Avoid Service Fees."

That is where things get complicated. The customer soon realizes that minimum balances can apply not only to checking accounts but to savings and investment accounts as well. Tiered pricing is mentioned only once in the two-page presentation, and actual charges and minimum balances are left unspecified.

New Jersey National, on the other hand, does present a table of minimum balances and opening-deposit requirements beside its explanation of maintenance charges. □

Ms. Ferring is senior editor of The Branch Manager, an American Banker newsletter.

ATM Fees Fail to Dissuade Users

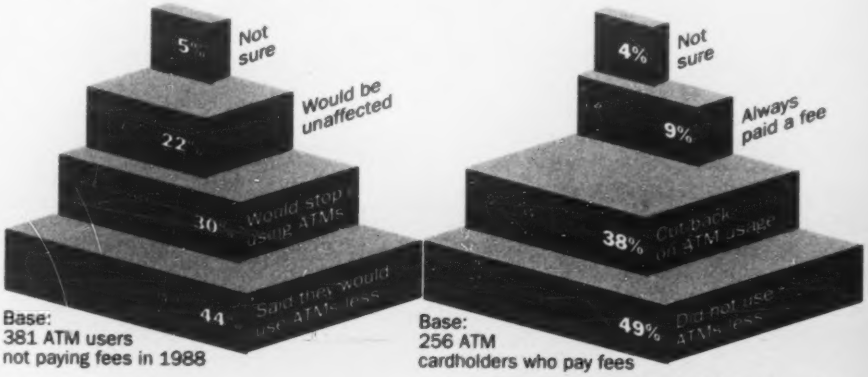
Convenience Factor Is Proving Attractive

By Lynn Homa

Most ATM Users Stay Loyal

Two years ago, when 54% of consumers had ATM cards, many threatened to walk if their institutions charged fees

In 1990, with ATM card penetration up to 57%, the threat is subsiding



Source: American Banker 1990 Consumer Survey

Bank customers squawked when faced with the prospect of paying fees for automated teller machine transactions. But now that push has come to shove, many of them continue to patronize the machines, and quite heavily at that.

The latest *American Banker* survey of 1,024 bank customers revealed that only 38% of cardholders cut back on ATM usage when banks introduced transaction fees.

Almost half – 49% – did not reduce transaction volume at all. The remainder either always paid a fee, or were unsure.

Consumers thus did not act on the sentiment they expressed about proposed ATM charges in the 1988 *American Banker* poll. At that time, 44% said they would limit ATM activity and 30% claimed they would turn in their cards if they had to pay for transaction services that had been provided free.

All of this occurred while the total number of bank ATM-card holders rose three percentage points over the two years, to 57%.

"Customers have found a new form of convenience, and they love it," said Janet Cropper, vice president of product management at Manufacturers Hanover Trust Co. in New York. For five years, the bank has offered basic checking accounts, which carry a flat monthly fee for ATM usage, and so-called Power Accounts, which levy fees only if account balances drop below a preset minimum.

"Our customers buy into the idea of relationship banking," Ms. Cropper said. "And ATMs are a part of that."

Many banks charge fees only when customers use "foreign" ATMs, units that are owned by competing institutions that participate in a shared network. The fees cover the cost of interbank communications and settlement. Banks that pass on the networking cost, in effect, are asking customers to pay for convenience and encouraging them to use their own bank's machines whenever possible.

Those messages are getting across to at least a sizable minority of ATM-card holders. About a fourth of them in the survey said they realized they paid to use machines owned by other banks.

In April, First National Bank of Chicago began charging 50 cents per transaction to customers who use foreign ATMs more than eight times a month. "We have collected fees from some; others changed behavior," said Pete Soraparu, vice president of the bank. "It's a matter of what might be more convenient for the individual customers."

In 1981, St. Paul Federal Bank for Savings in Chicago was the first member of the regional Cash Station network to charge for transactions made at any foreign or "off-premises" ATMs, proprietary units in locations such as grocery and convenience stores. □

Ms. Homa is senior editor of the Users' Guide to Financial Technology, an American Banker newsletter.

Trying to Catch American Express

Bankers Trudging Uphill in Travelers Check Arena

By Ellen Memmelaar

Although Visa and MasterCard claim that their travelers checks have taken a sizable portion of the market away from American Express, the bank-owned brands still have a long way to go to win over American consumers.

In the *American Banker* consumer survey, 92% of people with a travelers-check preference mentioned American Express. The rest mentioned MasterCard or Visa.

While this finding, from the *American Banker* poll of 1,024 consumers conducted last May, is not a direct measure of market shares, it does show the extent to which the dominant brand has established itself as a consumer preference.

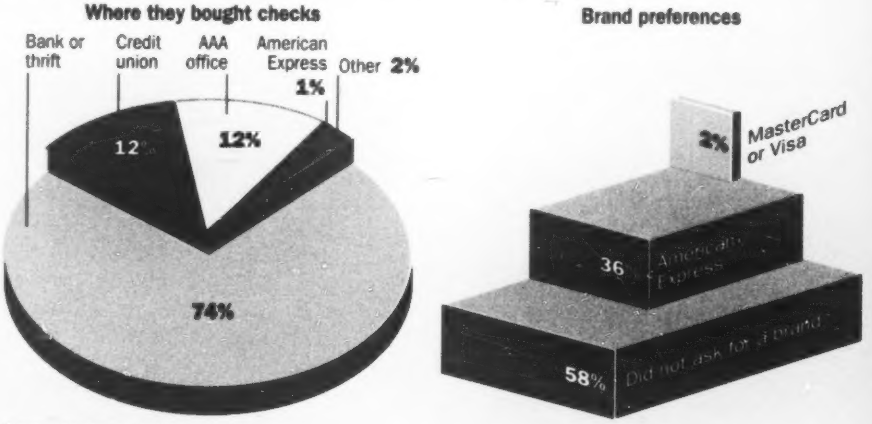
"We are ecstatic," said Dennis Stevens, vice president of marketing at the American Express Travelers Cheques Group in New York. "This is the first time an outside source has verified some of the things that we have been saying for a long time."

He said his company's travelers check sales have grown $7 billion since Visa and MasterCard introduced their brands in the early 1980s.

Most market researchers agree that American Express controls more than 40% of the $50 billion in annual worldwide sales of travelers checks, with MasterCard and Visa each in the 20% to 25% range. The bank card associations got their biggest boost when issuers such as BankAmerica Corp., Citicorp, and the Thomas Cook Group affiliated with MasterCard or Visa.

Travelers Checks

One-third of respondents purchased travelers checks in the past two years



Percentages rounded; answers of "don't know" not shown

Source: American Banker 1990 Consumer Survey

American Express' corporate image helps explain its lasting market-share superiority, market experts say.

"This is a classic case of a very effective job of creating a brand identity that is exceptional," said J. Douglas Adamson, president of the Bank Marketing Association.

So what are the two bank card groups to do? Visa doesn't see any problem.

"Sales performance is one of the most important measures of a product's popularity, and the Visa Travelers Cheque is the fastest-growing brand in the market," said Gregory Holmes, spokesman for the group.

Jack Wright, president of MasterCard Travelers Cheques in New York, said a study by his association showed that 91% of consumers would buy a travelers check other than American Express if it were offered under the same terms.

"The card associations are doing a good job of combating a huge budget and a big head start by American Express," said Mr. Adamson. "They just have to do more and better to make up the gap."

"Getting the sympathy of the banks on their side will be key," said Ms. Holmes. But so will marketing to the consumer, she was quick to add. □

Ms. Memmelaar is a New York-based freelance writer.

Savings Plan Loses Steam

Interest in Bush Proposal Dwindles

By Judy Ferring

> *"If something isn't moving legislatively, that doesn't mean there's no interest."*
>
> **VIRGINIA C. STAFFORD**
> *American Bankers Association*

Suffering withdrawal pangs from the loss of many tax breaks, consumers are showing an interest in President Bush's proposed family savings plan.

The first indication of interest came early in the year when the Gallup Organization found that 34% of those eligible for the plan were likely to invest. An embellishment on the individual retirement account, for which many middle- and upper-income taxpayers are no longer eligible, the family savings plan would provide tax-free income to people willing to sock their money away for seven years.

But after the April 15 tax deadline, as attention turned to the growing cost of the savings and loan bailout and other issues, the segment ready to invest in the Bush plan has dwindled to only 14%, Gallup said.

Thus, when the *American Banker* asked consumers in May if they would be interested in participating in the plan, 72% said they did not even know what it was. And half of those who did recall particulars about the plan had to be prompted with clues.

Lacking a groundswell of public support, the President's proposal to encourage long-term saving was referred to the Senate Finance Committee in the spring and remains in limbo. The personal saving rate has been going up nonetheless.

Establishing eligibility under the President's plan would not have been hard. Those with an adjusted gross income of $60,000 or less would be allowed to contribute up to $2,500 a year. The annual ceiling would be $5,000 for those with income between $60,000 and $120,000.

The deposits would be tax-free, as long as they were maintained for at least seven years. Earnings would be taxed as income only if withdrawn early, with a 10% excise tax added on withdrawals made before the end of the third year.

"If something isn't moving legislatively, that doesn't mean there's no interest," said Virginia C. Stafford, spokeswoman for the American Bankers Association. "The banks have seen a change in consumer attitude and are working to answer that.

"We've seen a trend toward some really creative savings programs," she said, listing such variations as contract accounts, in which consumers agree to deposit specified amounts periodically in return for preferential interest rates.

President Bush's proposal also unleashed some creativity in Congress. Rep. Charles E. Schumer, D-N.Y., proposed allowing savers to take a tax deduction when they file their income tax returns but not actually contribute the money until the next tax year. Senate Finance Committee Chairman Lloyd Bentsen, D.-Tex., proposed a "Super IRA" that would give a partial tax deduction for contributions allow penalty-free withdrawals to pay college tuition. ☐

Ms. Ferring is senior editor of The Branch Manager, an American Banker newsletter.

SAFETY AND SOUNDNESS

Americans are growing steadily more uneasy over the safety of the banking system. Interestingly, however, most say their skittishness hasn't translated into a change in banking habits, more than half claim no knowledge of the thrift crisis, and many aren't holding individual institutions responsible for the debacle.

Confidence Continues to Slide
By Robert M. Garsson 46

Leveling Blame for Thrift Fiasco
By Robert M. Garsson 49

Confidence Sags Along with Health Of the Banking System

By Robert M. Garsson

BUT INSURANCE ON DEPOSITS SHIELDS MANY INSTITUTIONS FROM PUBLIC'S JUDGMENT

While Congress, the Bush administration, and a horde of financial services executives and lobbyists gear up for debates next year on proposals to restructure and reregulate the industry, the public is growing steadily more uneasy over the safety of the banking system.

The *American Banker*'s seventh annual survey of consumer attitudes showed that 35% of the public believe the banking system is unhealthy. The reading was up from 30% a year earlier and was the worst since the survey series began in 1984.

In every survey since 1985 – with the notable exception of 1988, when Americans prepared to choose a new president – confidence in the financial system has been drifting downward. The erosion of confidence has become especially pronounced with growing awareness of the magnitude of the savings and loan debacle and the multibillion-dollar bailout program that began in 1989.

In 1985, 74% of the public pronounced the system healthy and only 22% said it was unhealthy. Only 62% were willing to say the system was healthy this year.

Similarly, in 1985, 37% of the public said they had a great deal of confidence in the banking system, compared with 22% today.

Twelve percent of the survey respondents said they had little or no confidence in the system in 1985. That figure has swelled to 19% today.

Little Impact on System

But so far, the change in public attitudes appears to have had little impact on the system itself and the institutions in it. There has been no parallel decline in the ratings that people give their own banks, credit unions, and even thrifts.

"A lot of people are distressed and dissatisfied with the banking system," said David Danovitch, regulatory counsel to the National Council of Savings Institutions. "But they're not sure they know why."

For financial services industry executives, Mr. Danovitch added, "the time to get nervous is when you start to see runs on banks." They have not happened, and the reason almost certainly has to do with the confidence Americans have in the deposit insur-

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ance system.

Jay Schmiedeskamp, a senior vice president at the Gallup Organization in Princeton, N.J., said a visit to his S&L early this year revealed why faith in the U.S. banking system remains high despite its well-publicized problems. The reason Mr. Schmiedeskamp did not pay much attention to newspaper stories about the thrift's troubles, he said, is deposit insurance.

"I had read in the paper that the thrift was having trouble," said Mr. Schmiedeskamp, director of Gallup's economic and financial surveys. "But on the way out, I saw a letter in the door that it had been turned over to the Resolution Trust Corp. a few months before. I hadn't even noticed."

Critical Coverage

Apparently, the public feels the same way. Almost three-quarters of the 1,024 people who responded to the survey last May said deposit insurance is extremely important to them, and another 14% said it was very important. Only 4% judged it unimportant or only slightly important.

Those feelings undoubtedly offset the sense of unease, exacerbated during last year's debate over the thrift bailout, about the health of the system.

> *"I would be amazed if people were not feeling more uneasy."*
>
> **KENNETH E. GUENTHER**
> *Executive vice president*
> *Independent Bankers Association*

The *American Banker* survey results are not terribly surprising, said Kenneth E. Guenther, executive vice president of the Independent Bankers Association of America.

Given the bad news coming out of the banking and thrift industries over the past few years, "I would be amazed if people were not feeling more uneasy," he said.

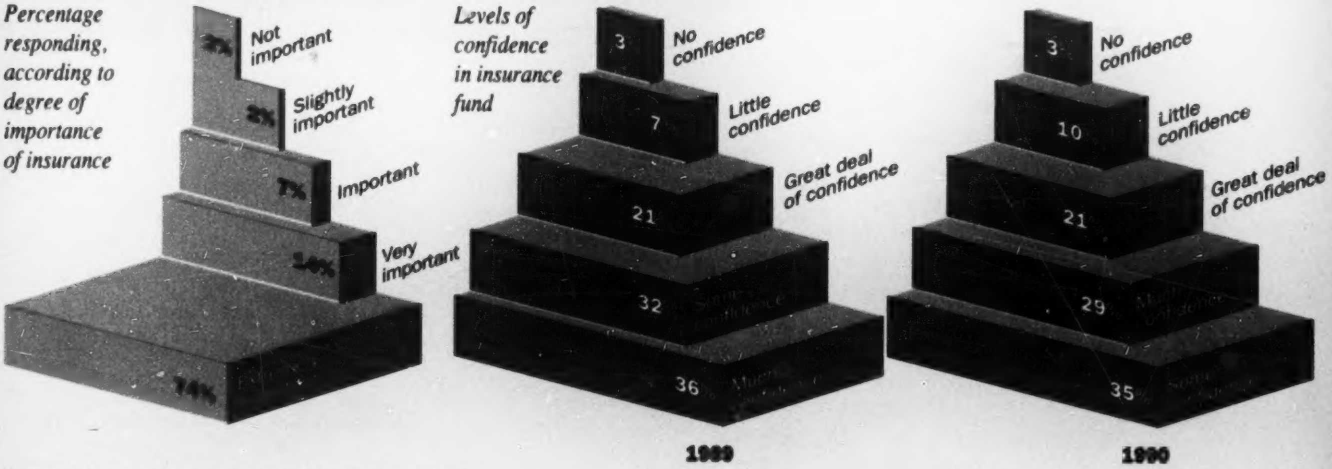
Mr. Guenther believes policymakers should take note of declining consumer confidence in the banking industry before they begin tinkering with the deposit insurance system, as they are expected to do early next year after the Treasury completes an 18-month study of the program.

"If people are already nervous, then any cutback [in insurance coverage] raises the specter of people moving their money around," he said. And for banks too small to belong to the elite "too big to fail" club, that spells trouble.

For Mr. Guenther and others who are staunchly opposed to cutbacks in deposit insurance coverage, the *American Banker* survey conveys more bad news than good, however.

Asked if they would be willing to accept a reduction in the $100,000 coverage if it meant the insurance fund would be more sound, 66% said yes.□

A Clear Endorsement for FDIC Insurance...
But Confidence in the System Is Flagging



Percentages rounded, answers of don't know excluded

Source: American Banker 1990 Consumer Survey

Thrift Crisis Fails to Register With Half the Public

By Robert M. Garsson

MANY OF THOSE AWARE OF FIASCO POINT FINGER TOWARD EXECUTIVE BRANCH

With network news, radio talk shows, and even Phil Donahue zeroing in on the savings and loan crisis, could there be anyone left who doesn't know that the government is bailing out the industry to the tune of $500 billion, including interest?

Indeed there could, according to *American Banker*'s consumer survey. More than half of the randomly selected respondents - 52% - said they had not heard about the S&L crisis.

And despite rumblings that consumer confidence in the financial system is on the wane, there was little outward sense of alarm.

Only 5% of those interviewed said they had changed their behavior - or plan to change it - as a result.

Among the 48% who know of the S&L crisis, however, the response was more telling. In that group, 10% said they had altered or plan to alter their banking practices.

Nonetheless, Frederick Webber, president of the U.S. League of Savings Institutions, said the survey result is alarming.

"Any number like that is a large number," said Mr. Webber. "If the implication is that they are going to leave savings and loans, that is bad news."

Publicity Is 'Harsh'

"I wish we could get away from all the negative publicity," said Mr. Webber. "But the drumbeat continues, and it is tough. The treatment in the press is very harsh."

The question of whom the public blames for the mess is likely to be critical in years to come, since it will shape attitudes on Capitol Hill, where legislation affecting the thrift industry will be considered.

And for all the talk on the Hill about the S&L "kingpins" who are said to have looted the industry of tens or hundreds of billions of dollars, the American public placed very little of the blame on thrifts themselves.

President Reagan, the most popular of national leaders when in office, tops the list of culprits, with 29% of the public blaming him for the debacle.

Regulators - themselves presidential appointees - were blamed by 7%

of those surveyed. Congress was not cited at all.

Only 4% of the survey respondents mentioned the S&Ls, though a number of those surveyed mentioned items that reflected upon individual institutions, such as mismanagement (28%), greed (14%), and bad investments and loans (3%).

The latter three categories are not exactly compliments, but only one of them – greed – supports the S&L kingpin mania in Washington.

Ely Backs Consumers

Bert Ely, an Alexandria, Va.-based consultant, said consumers chose wisely in singling out the executive branch for most of the blame.

"I think Congress gets blamed too much," said Mr. Ely. "The legislative body is essentially reactive. We don't look to Congress for leadership."

Still, Mr. Ely thinks most of those who bear responsibility have generally escaped notice, starting with Franklin D. Roosevelt, who signed the deposit insurance system into law during the first year of his presidency, and Harry S Truman, whose administration presided over the creation of the modern thrift industry.

Robert Rusbuldt, a lobbyist with the Independent Insurance Agents of America who is active in Republican politics, said he thinks public perceptions will change as the year progresses, to the detriment of S&Ls.

Campaign Exposure Likely

That is because a number of congressional candidates – especially challengers – are using the S&L issue in their campaign advertising. The ads are likely to drive home the view that members of Congress, the administration, and the regulatory agencies – different targets for different candidates – turned a blind eye to fraud and corruption in the S&L industry.

The charges are also likely to give deregulation a bad name, Mr. Rusbuldt said. That is good news for trade groups such as the Independent Insurance Agents, which fear that further deregulation will hasten the day when banks gain full entry into their business.

Not everyone agrees. Jay Schiedeskamp, senior vice president and director of economic and financial surveys for the Gallup organization, said S&Ls may figure low in the average voter's election year calculus.

"I have been a longtime believer that things that really impact people are what they pay attention to," he said. "The S&L crisis is not something they can do anything about now. It's just not on anyone's front burner."

But many are worried that the lawmakers perceive the mood to be ugly and are acting on it.

"The thing I am most concerned about is the draconian bills that are being introduced," said David Sullivan, president and chief executive officer of Mechanics and Farmers Savings bank, Bridgeport, Conn.

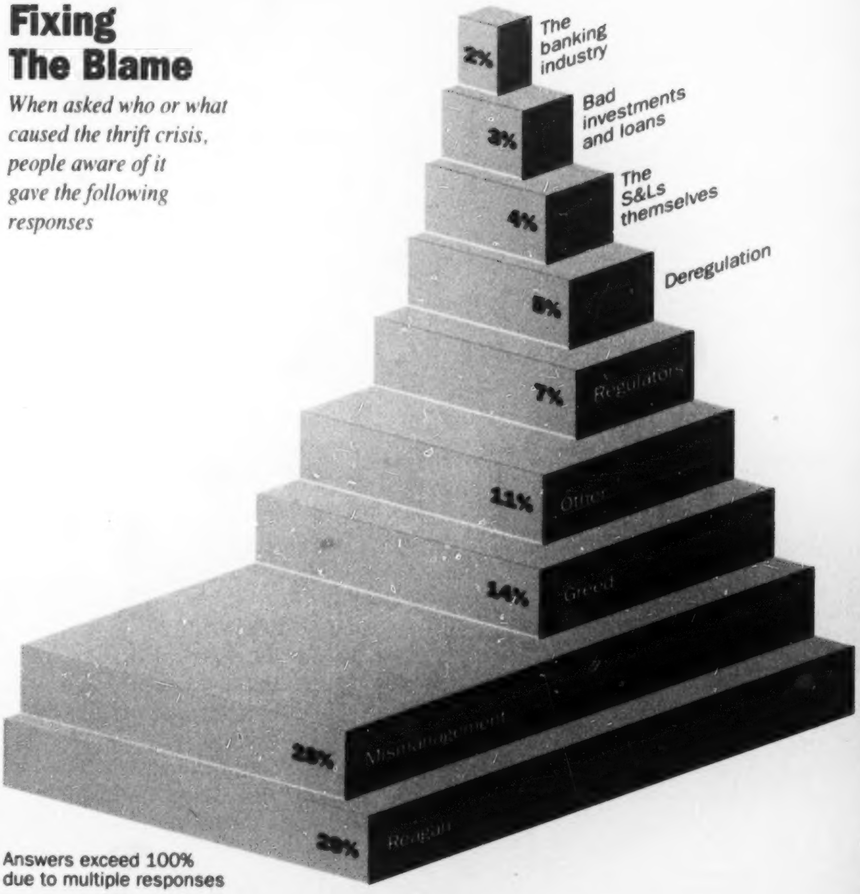
The bills Mr. Sullivan expressed concern about would mandate long prison terms – life sentences in some cases – for crimes involving thrifts and banks. This is the so-called "S&L kingpin" section, borrowing its terminology from the drug wars.

Mr. Webber worries, too, that the legislative well is being poisoned by overzealousness. But he believes most citizens are generally reasonable in their assessment of the thrift crisis.

"We get our fair share of blame, and we deserve it," he said of the thrift industry. "But the public isn't stupid. People know the crisis was caused by a variety of factors, not just by us." ☐

Fixing The Blame

When asked who or what caused the thrift crisis, people aware of it gave the following responses



Answers exceed 100% due to multiple responses

Public Policy

As confidence in the financial system continues to waver, a jaded public appears to be demanding that banking institutions atone for their mistakes by playing an ever more active social role. Most consumers feel banks should make an effort to lend locally – even when such lending isn't profitable – and take steps to stem money laundering.

Institutions Facing the Music
By Merri Rosenberg.................................. 52

Public Expresses Desire for Payback From Erring Industry

By Merri Rosenberg

CONSUMERS FEEL BANKS SHOULD MAKE EFFORT TO LEND LOCALLY AND STEM LAUNDERING

It is not surprising that many consumers are troubled by headlines and sound bites describing a banking industry in turmoil.

But the depth and scope of the disgruntlement, as revealed in *American Banker*'s annual consumer survey, go beyond mere expression of concern about the viability of the financial system. Consumers appear to be demanding that banking institutions atone for their mistakes by playing an ever more active social role, partly in the form of an increased commitment to community lending.

The survey also uncovered evidence of anger at the cost of the S&L bailout program, trepidation over industrywide merger and acquisition activity, and indignation against credit-card companies that swap data on customers with the intent of issuing preapproved cards.

Many view banks almost as utilities, obligated to provide basic services at low cost. They also expect banks to help ensure the availability of low-cost housing and take steps to prevent money laundering for drug sales and other illicit activities.

Consumer confidence is at its lowest point since the *American Banker* survey series began in 1984. Thirty-five percent of respondents say the industry is unhealthy, compared with 30% in 1989, and only 22% said they have a great deal of confidence in the safety and security of U.S. banking, down from 33% last year.

S&L Crisis Cuts Deep

The thrift crisis seems to be getting the consumer's goat the most. Three out of four respondents agreed with the statement "taxpayers are being taken for a ride" in the savings and loan bailout.

Just over half say the recent spate of bank mergers has lessened their confidence in the entire system.

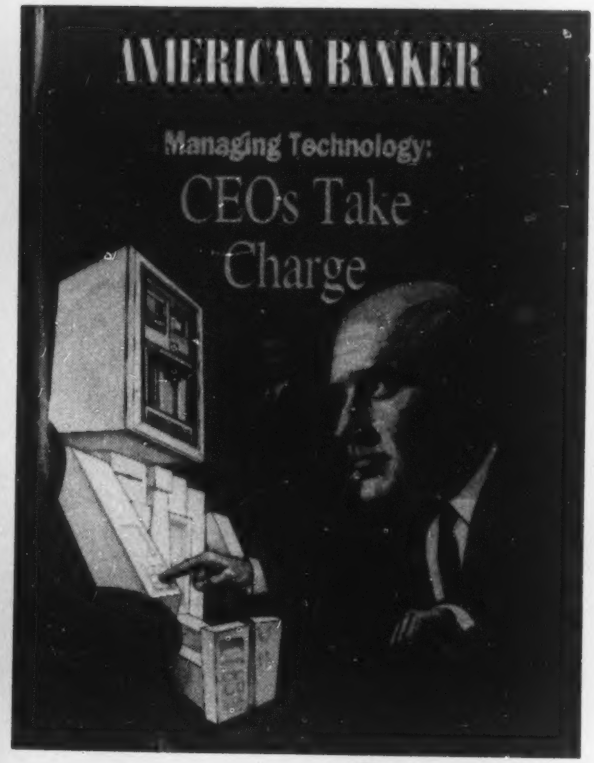
"I think bankers have to continue to address that issue," says James Gibson, vice chairman of Union Bank in San Francisco. "It's a highly emotional issue for consumers, but I don't believe that the whole economic system is going to go down the tubes" because of it.

"While consumers seem to be con-

Ms. Rosenberg is a financial writer based in Ardsley, N.Y.

American Banker's

Fourth Annual Technology Survey



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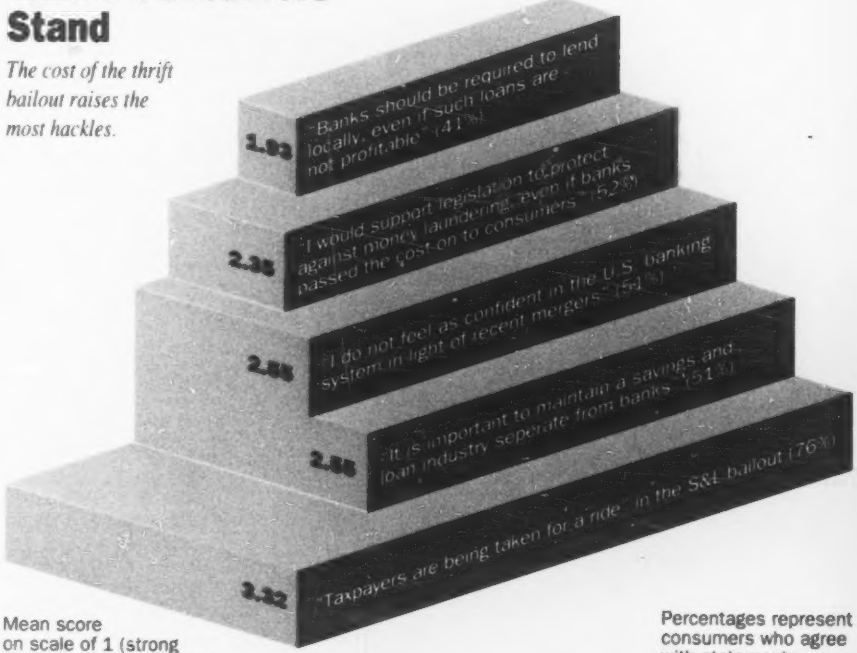
> *"There's such a fine line between S&Ls and banks. A bank is a bank is a bank."*
>
> **JAMES GIBSON**
> *Vice chairman*
> *Union Bank*

Where Consumers Stand

The cost of the thrift bailout raises the most hackles.



Mean score on scale of 1 (strong disagreement) to 5 (total agreement).

Percentages represent consumers who agree with statements.

Source: American Banker 1990 Consumer Survey

cerned about the industry, they don't necessarily carry that over to individual institutions," said J. Douglas Adamson, executive vice president of the Bank Marketing Association in Chicago. "There's a greater level of confidence in the bank that people use customarily. Banks are doing a good job in keeping the public's confidence in their own institution up."

Fallout May Be Damaging

But it is the potential fallout from the thrift crisis that has bankers most concerned.

"There's such a fine line between S&Ls and banks," said Mr. Gibson of Union Bank. "A bank is a bank is a bank. It causes people to be very disturbed."

Said James H. Grohl, senior vice president of the U.S. League of Savings Institutions: "There's no question that all taxpayers, including the S&Ls, are mad as hell about the situation. I'm surprised the anger rate is not higher. The anger is there and mounting."

On a scale of 1 to 5, with 5 denoting agreement with the notion that taxpayers are being taken for a ride, the *American Banker* survey sample registered a 3.32. The outrage may have intensified since the survey was conducted in May by Trans Data Corp., the newspaper's research affiliate.

But some bankers say they have not experienced such consumer concern in their own institutions. "I would prefer that the perception not be there," said Theodore H. Roberts, chairman and chief executive officer of Talman Home Federal Savings and Loan Association, Chicago. "But I don't see that concern in my own customers."

As part of the overall concern about the S&L industry, 51% of consumers feel it is important to maintain a savings and loan industry separate from commercial banks. The agreement on this point was considerably less than

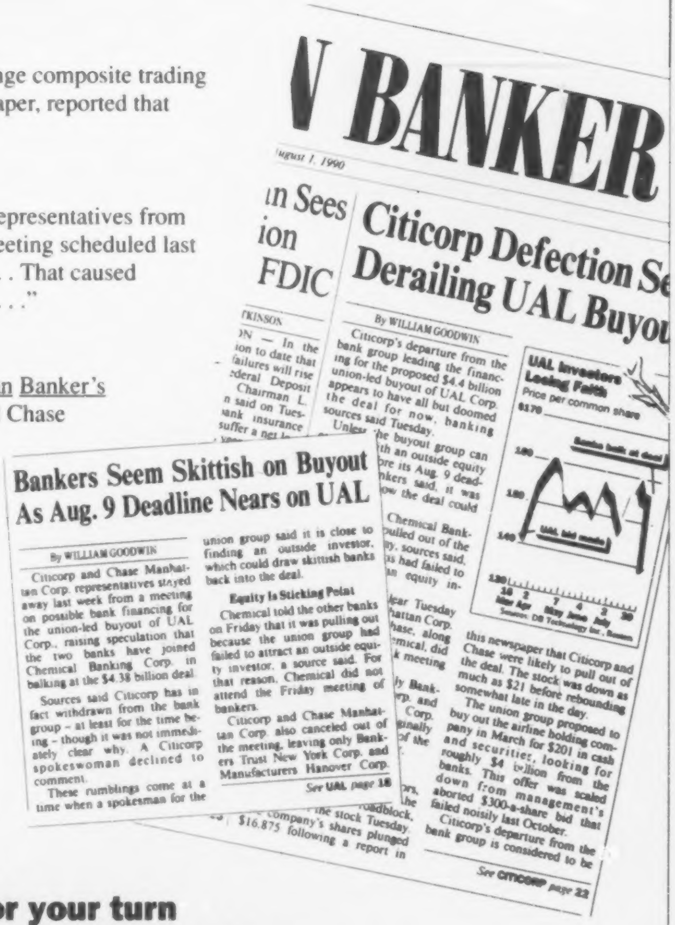
ARE YOU GETTING BREAKING NEWS LIKE THIS AS IT HAPPENS?

"Yesterday's UAL sell-off in New York Stock Exchange composite trading began after the American Banker, a financial newspaper, reported that Citicorp had withdrawn from a group of banks . . ."
—*The Wall Street Journal*

"The American Banker . . . reported yesterday that representatives from Citicorp and Chase Manhattan had not attended a meeting scheduled last week to discuss possible financing of the takeover . . . That caused speculation that the two banks may be withdrawing . . ."
—*The New York Times*

"Arbitragers said the report, published in the American Banker's Tuesday edition, raised speculation that Citicorp and Chase Manhattan may be withdrawing . . ."
—*Reuter*

"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
—*A.P.*



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Citicorp Defection Se Derailing UAL Buyou

By WILLIAM GOODWIN

Citicorp's departure from the bank group leading the financing for the proposed $4.4 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said Tuesday.

Unless the buyout group can th an outside equity ore its Aug. 9 dead- nkers said, it was ow the deal could

Chemical Bank- pulled out of the y, sources said, as had failed to an equity in-

lear Tuesday hattan Corp. hase, along emical, did k meeting

ly Bank- rp. and Corp. ginally of the

ors, the roadblock, the stock Tuesday. company's shares plunged $16.875 following a report in

this newspaper that Citicorp and Chase were likely to pull out of the deal. The stock was down as much as $21 before rebounding somewhat late in the day.

The union group proposed to buy out the airline holding company in March for $201 in cash and securities, looking for roughly $4 billion from the banks. This offer was scaled down from management's aborted $300-a-share bid that failed noisily last October.

Citicorp's departure from the bank group is considered to be

See CITICORP page 22

UAL Investors Losing Faith

Price per common share

Source: DB Technology Inc., Boston

Bankers Seem Skittish on Buyout As Aug. 9 Deadline Nears on UAL

By WILLIAM GOODWIN

Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 billion deal.

Sources said Citicorp has in fact withdrawn from the bank group – at least for the time being – though it was not immediately clear why. A Citicorp spokeswoman declined to comment.

These rumblings come at a time when a spokesman for the union group said it is close to finding an outside investor, which could draw skittish banks back into the deal.

Equity Is Sticking Point

Chemical told the other banks on Friday that it was pulling out because the union group had failed to attract an outside equity investor, a source said. For that reason, Chemical did not attend the Friday meeting of bankers.

Citicorp and Chase Manhattan Corp. also canceled out of the meeting, leaving only Bankers Trust New York Corp. and Manufacturers Hanover Corp.

See UAL page 18

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> *"There's no question that all taxpayers, including the S&Ls, are mad as hell about the situation."*
>
> **JAMES H. GROHL**
> *Senior vice president*
> *U.S. League*

on the notion that taxpayers are being bilked, at 2.55 on a scale of 1 to 5.

"The public intuitively understands the need" for a specialized thrift industry, said Mr. Roberts. "Borrowers can't compete at all times in the capital markets."

Mr. Grohl added, "I think the fact that consumers feel strongly about having a separate S&L business is an indication that the aware individual, who knows the purpose of the thrift charter, recognizes that the guy with whom they've done business is not the guy in this situation.

"A healthy, and honestly operated institution has to make the extra effort these days to make sure the community and customers are aware of what they do."

Meanwhile, many consumers would welcome some social activism from their financial institutions. Slightly more than half of consumers in the survey said they would support legislation that would protect against money laundering, even if banks had to pass enforcement costs along to consumers.

"I'm encouraged by that response," said Mr. Gibson of Union Bank. "Legislation about money laundering is seen as one way to stop drugs. It will cost more money, but it will be accepted like the x-raying of luggage at airports."

Obligation to Lend Locally

Similarly, on the issue of redlining and community reinvestment, more than 40% of those surveyed felt that banks should be required to lend locally, even if such loans are not profitable. And 32% – including half of nonwhites – said they would switch their primary financial institution if it did not comply with the Community Reinvestment Act.

Bankers are skeptical about that threat, but they are taking their responsibilities under the Community Reinvestment Act of 1977 seriously – in part because CRA compliance ratings are now being made public by regulators.

"We think we have a very good record in investing in the communities in which we serve," said Ken Mills, a spokesman for Chase Manhattan Bank in New York. "One of the most significant things we've done is form the Community Development Corp., a for-profit entity whose mission is to invest in housing and economic development. This overlaps with other activities that are part of our investment in the community."

Still, there is concern among some bankers that public expectations that appear to confuse banking with philanthropy could backfire.

"All bankers have a heightened awareness of the reinvestment act," said Mr. Gibson. "Banks are more aware of their responsibility, and that's perfectly reasonable. But it's dumb to lose money."

Concern over Privacy

And if consumers expect banks to take a more active role in the drug war and to shore up economically deprived areas, they are equally assertive about how they expect banks and other financial institutions to stay out of their lives.

About 49% of the consumers surveyed believe strongly that preapproved credit cards – which have only to be signed to become effective when received through the mail – are an invasion of privacy.

"They don't know what information is being seen or by whom," said Gerri Detweiler, education coordinator of Bankcard Holders of America, a Washington-based consumer organization. "The most common response is 'It's my personal information, and if I want a credit card, I'll apply for it.' Lots of consumers feel that it's out of their control." □

Dear Reader, How Are We Doing?

The *American Banker* hopes you find value in our consumer survey and that the information will be useful in your work. To help us prepare future surveys, would you please offer us some feedback on this one? Please return this questionnaire to Tom Ferris, Managing Editor, *American Banker,* One State Street Plaza, New York, NY 10004. Many thanks.

1. Overall, how informative is the 1990 consumer survey?

☐ Very informative ☐ Not very informative
☐ Somewhat informative ☐ Not at all informative

2. How useful is this survey to you?

☐ Very useful ☐ Not very useful
☐ Somewhat useful ☐ Not at all useful

3. How will you use the information from this survey at work?

4. What do you LIKE MOST about this survey?

5. What do you LIKE LEAST about this survey?

6. To help us decide which areas to study in future surveys, please rank your interest in each of the categories as follows: 3 = Extremely important, 2 = Fairly important, 1 = Not important.

___ Confidence in the banking system
___ Customer satisfaction with financial institutions
___ Saving/borrowing habits and attitudes
___ Check clearing
___ One-stop financial shopping
___ How people choose banks
___ Direct sales of financial products
___ Credit card marketing strategies
___ Debit card marketing strategies
___ Satisfaction with customer service
___ ATM use

7. What subjects or issues that are not in the 1990 consumer survey would you like covered in a future survey? What other changes would make the survey more useful?

To help us to better understand responses, please fill in the following information:

Name (optional) ________________
Title ________________
Company ________________
Address ________________
City ________ **State** ________ **Zip Code** ________

P.S. Thanks again very much for your help. If you would be willing to discuss your views about the survey with us, would you list your telephone number so that we might contact you?

Phone number ________________

American Banker's Consumer Survey: The Questionnaire

Following are the questions that were posed to 1,024 heads or co-heads of household of a randomly selected cross-section of the population in the continental United States.

The interviews were conducted by telephone during May 1990.

The questionnaire – covering overall confidence of the banking industry, financial institution usage, product usage, savings and borrowing preferences, service quality, ATM fees, and other topics – typically required 20 to 30 minutes to complete.

General Industry

1. How healthy do you personally think the U.S. banking and financial system is at the present time?

–Very healthy

–Fairly healthy

–Fairly unhealthy

–Very unhealthy

–Not sure

2. And how much confidence do you personally have in the safety and security of the U.S. banking and financial system today?

–A great deal

–Some

–Very little

–No confidence

–Not sure

3. Compared to a few years ago, do you have more confidence now, less confidence now, or about the same amount of confidence in the U.S. banking and financial system?

4. On a scale from 1 to 5, with 1 meaning no confidence, and 5 being great confidence, how much confidence do you have in the government insurance fund backing your deposits?

5. On a scale from 1 to 5, with 1 meaning no importance, and 5 being a great deal of importance, how important is it that your deposits are insured by the government?

6. Would you be willing to accept less than $100,000 deposit insurance coverage if it meant that the fund would become sound financially?

Financial Institution Usage

7. Do you or anyone in your household now maintain an account, including deposit accounts, loans, and credit cards, with these institutions?

–Commercial bank

–Savings and loan

–Credit union

–Finance company

–Mortgage company

–Brokerage firm

–Mutual or money market fund

–Insurance company

–Other, specify

–None

–Not sure

–Refused to answer

8. Which one type of the financial institutions you just named would you call your most important or principal financial institution?

9. How many of these financial institutions do you and other members of your household use?

10. If you use more than one financial institution, have any of them ever tried to get you to put all of you accounts with them?

11. Overall, how satisfied are you with your principal financial institution at the present time?

–Very satisfied

–Somewhat satisfied

–Not satisfied

–Not sure

12. And compared to a few years ago, are you more satisfied, less satisfied, or equally satisfied with your principal financial institution?

13. Do you or other members of your household have any certificates of deposit (CDs)?

14. Where did you obtain your CDs?

–Bank

–Thrift

–Credit union

–Other

–Don't know

15. And does your household have any mortgage loans? This would include first mortgages or second mortgages.

16. At what type of financial institution do you have these mortgages?

–Bank

–Thrift

–Credit union

–Mortgage company

–Other

–Don't know

17. Do you or any other members of your household have a home equity line of credit?

18. Why did you choose a home equity line of credit rather than a different type of loan?

19. How do you plan to use the home equity line of credit?

20. Do you or other members of your household have any car loans?

21. At what type of financial institutions do you have these loans?

–Bank

–Thrift

–Credit union

–Finance company

–Dealer

–Leasing company

–Other, specify

–Don't know

22. Have you purchased travelers checks within the past two years? Where?

23. When you purchased the travelers checks, did you ask for a specific brand?

24. Have you ever lost or misplaced a traveler's check and asked for a refund or replacement?

25. Have you ever bought any of the following services from a bank?

–Travel services

–Mutual funds

–Securities

–Annuities

–Insurance

–Financial planning services

Credit Cards

26. Do you or someone in your house have one or more credit cards?

27. Which of the following credit cards do you have?

–MasterCard

–Visa

–American Express

–Discover

–Optima

–Diner's Club

–Retail card

–Oil/Gas card

–Other, specify

–Don't know

28. Which card would you say that you use the most often?

29. Within the last year, have you acquired any new credit cads?

30. In the last year have you upgraded any of your credit cards from standard cards to gold cards?

31. AT&T has recently introduced a new credit card, which is a bank credit card that can also be used for long distance phone calls. Are you familiar with AT&T's new credit card?

32. On a scale of 1 to 5, with 1 being extremely uninterested, and 5 being extremely interested, how interested are you in using the AT&T card?

33. Would you use the AT&T credit card for purchases for which you would normally would use another Mastercard or VISA?

Savings & Borrowing

34. President Bush has recently proposed to Congress a tax free family savings plan. Are you familiar with the President's proposed Family Savings Account?

35. On a scale of 1 to 5, with 1 being extremely unlikely, and 5 being extremely likely, how likely are you to contribute to a Family Savings Account if the plan was put into affect?

36. If given the choice between a Family Savings Account as proposed by President Bush and an tax-free IRA account, which of the two accounts would you prefer to invest in?

Service Quality

37. Have you ever closed an account or changed financial institutions because of a service problem?

38. Do you prefer a large institution or a smaller, local institution for your banking needs?

39. Has this preference changed within recent years?

40. If your institution were to merge with or be acquired by another institution, how likely would you be to move your funds?

Checking

41. How interested are you in insurance for purchases made with checks? How interested would you be if you had to pay extra for this service?

42. If your institution were to offer insurance for purchases made with checks, would you purchase more goods and services with checks?

43. Which would you prefer: a low-fee checking account or a fee-based checking account with additional benefits such as insurance for purchases or travel services?

44. Does your institution require a minimum balance that must be maintained in your checking account to avoid service charges?

45. Are your bank's policies regarding fees clear?

ATM/Debit Cards

46. Do you have an automated teller machine card?

47. Do you pay a flat monthly or annual fee for your ATM card? Do you pay a fee per transaction?

48. Do you make fewer ATM transactions now than you did before you had to pay fees?

49. Would you switch institutions due to increases in ATM fees?

50. Do you or does anyone in your household have a debit card?

51. How often do you make a purchase using your debit card?

52. Why don't you use your debit card more often?

FSLIC Crisis

53. Have you heard or read any news about government insurance of deposits in Savings and Loans, and recent government activities related to regulation of the Savings and Loan industry?

54. Have you changed the way you bank as a result of what you've heard?

55. How have you changed?

–I've lowered balances at thrifts.

–I've closed some accounts with thrifts.

–I've closed all accounts with thrifts.

–I will not open any other accounts at thrifts.

–I will not add to any accounts at thrifts.

55. Who or what do you believe is to blame for the problems in the Savings and Loan industry?

Attitudes/Opinions

57. Do you agree or disagree with the following statements?

–Pre-approved credit cards are an invasion of privacy.

–Banks are pushing too much credit on consumers.

–Consumers have taken on too much personal debt.

–I would switch credit cards for a lower rate.

–I feel safer with a locally-issued credit card.

–In the S&L bailout, taxpayers are being taken for a ride.

–I do not feel as confident in the U.S. banking system in light of the recent mergers.

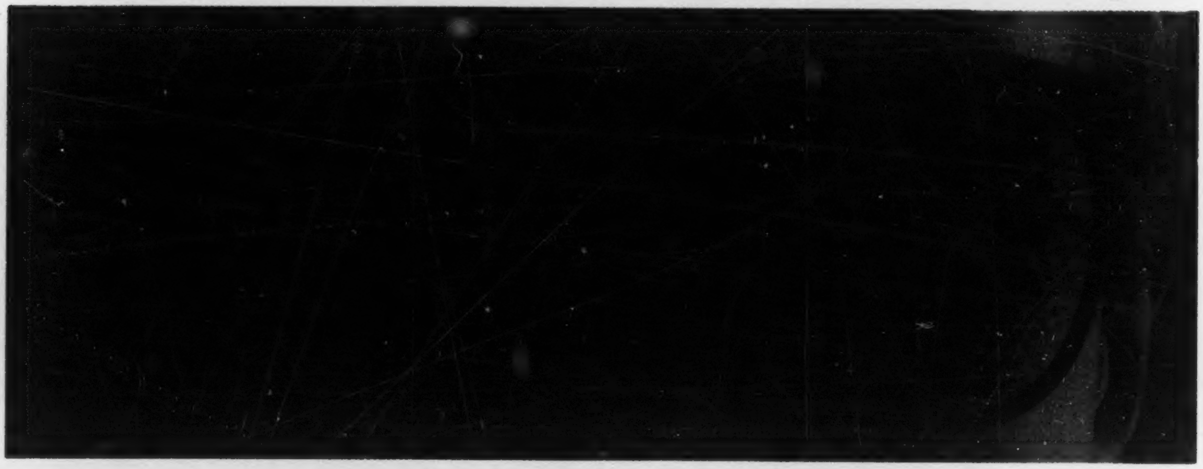
–It is important to maintain a savings and loan industry that is separate from banks.

–Banks should be required to lend locally, even if such loans aren't profitable.

–I would support legislation to protect against money laundering.

58. Effective July 1, compliance with the Community reinvestment Act, in which institutions are required to loan to low-income communities will become public knowledge, would you switch institutions if your current primary institution did not comply with this act?

Through the eye of the fiduciary.



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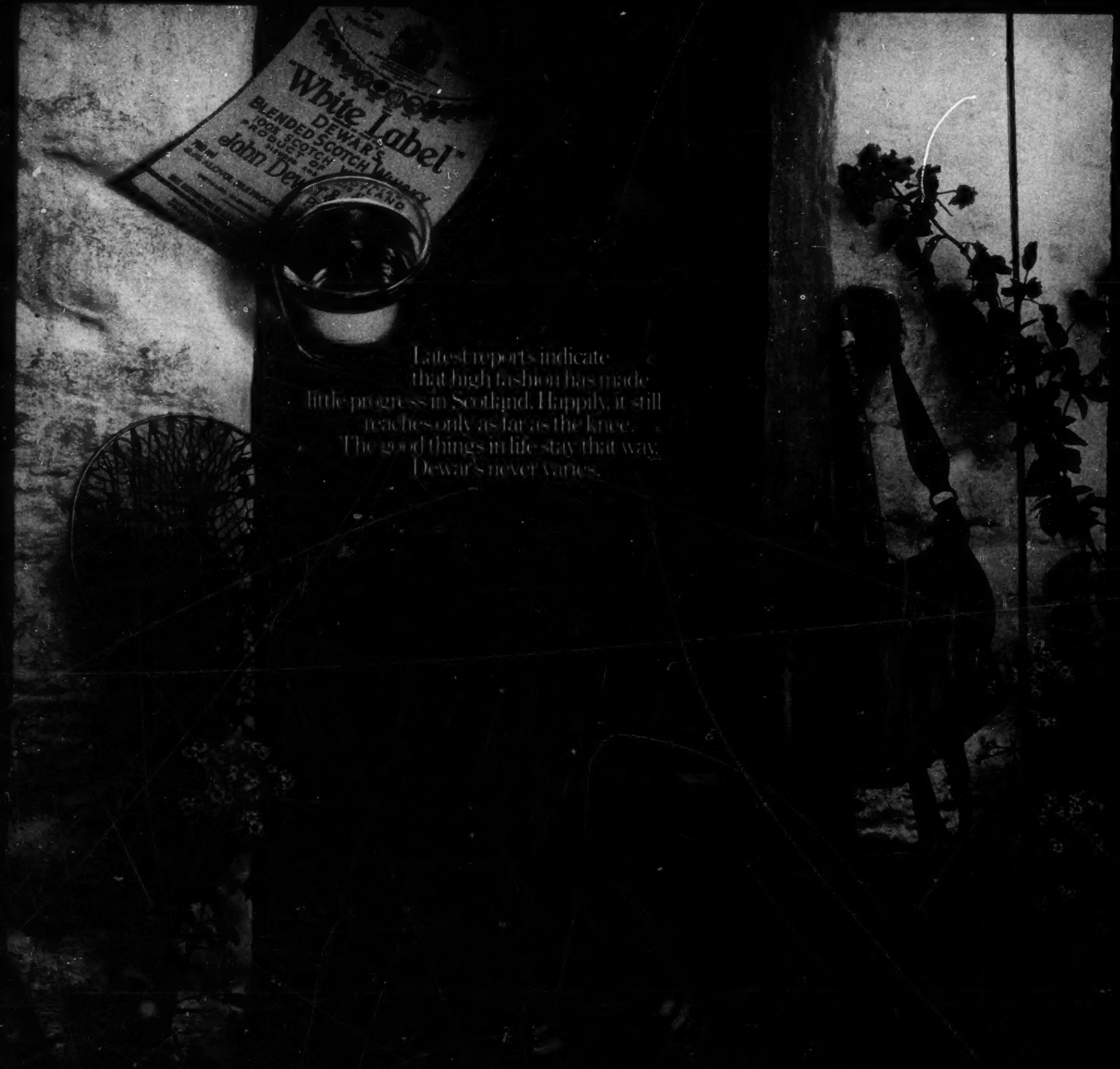
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